

ANTICIPATED NOMINATION OF  
ROGER C. ALTMAN

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Y 4. F 49: S. HRG. 103-4

Anticipated Nomination of Roger C....

HEARING

BEFORE THE

COMMITTEE ON FINANCE  
UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON THE

ANTICIPATED NOMINATION OF

ROGER C. ALTMAN, DEPUTY SECRETARY OF THE TREASURY  
DESIGNATE

JANUARY 13, 1993



APR 16 1993

Printed for the use of the Committee on Finance

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# NOMINATION OF ROGER C. ALTMAN, DEPUTY SECRETARY OF THE TREASURY DESIGNATE

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WEDNESDAY, JANUARY 13, 1993

U.S. SENATE,  
COMMITTEE ON FINANCE,  
*Washington, DC.*

The hearing was convened, pursuant to notice, at 10:30 a.m., in room SD-562, Dirksen Senate Office Building, Hon. Daniel Patrick Moynihan presiding.

Also present: Senators Baucus, Bradley, Riegle, Breaux, Packwood, Chafee, Durenberger, Grassley, D'Amato, and Conrad.

[The press release announcing the hearing follows:]

[Press Release No. M-3, January 12, 1993]

## CONFIRMATION HEARING FOR ROGER ALTMAN SCHEDULED

WASHINGTON, DC—The Senate Finance Committee will hold a confirmation hearing and executive session on the nomination of Roger C. Altman to be Deputy Secretary of the Treasury.

The Committee will meet at 10:30 a.m. Wednesday, January 13, 1993 in room SD-562 of the Dirksen Senate Office Building.

## OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, A U.S. SENATOR FROM NEW YORK

Senator MOYNIHAN. I would like to say I would like to wish our guests a good morning.

I see Senator Bradley has arrived. I see Senator D'Amato has arrived and, of course, our distinguished and most welcome nominee for the position of Deputy Secretary of the Treasury, Mr. Roger C. Altman.

I think we will follow the practice we proceeded with yesterday, if that is agreeable to you. Fine.

Senator D'Amato, you are closest to Mr. Altman in proximity. Senator Bradley you are slightly senior to Senator D'Amato. This presents a kind of dilemma that is characteristic. Mr. D'Amato has graciously suggested that you should begin.

Senator BRADLEY. Mr. Chairman, I thank you, but I also know that Senator D'Amato is the Senator from New York and the Chairman is the Senator from New York. And therefore, I would perfectly understand if you choose to begin with Senator D'Amato.

Senator MOYNIHAN. Here is an opportunity for gridlock in government. [Laughter.]

Senator D'Amato defers once again to Mr. Bradley.



**OPENING STATEMENT OF HON. BILL BRADLEY, A U.S.  
SENATOR FROM NEW JERSEY**

Senator BRADLEY. Thank you very much, Mr. Chairman.

It is a pleasure to come to the Finance Committee today as you consider the nomination of Roger Altman to be Deputy Secretary of the Treasury.

Although I am not the Senator from New York, I am the Senator from New Jersey. And I do know Roger well. And I am very pleased to be here today to introduce him to the committee.

I have admired his work both as a public servant and during his tenure as one of the Nation's leading investment bankers. I also count him as a personal friend.

Yesterday, the committee had the privilege of considering Senator Bentsen's nomination to be Secretary of the Treasury.

I think that all of the committee members came away recognizing that the Treasury faces extraordinary challenges in terms of the domestic economy and in terms of the global economy. It is vital that the Treasury team be as strong as possible.

As I said yesterday in my comments to Senator Bentsen, I think that his deputy is an extremely strong candidate and an extremely able person.

As Assistant Secretary of the Treasury during the 1970's, Roger Altman was a key person in crafting and implementing the legislative package needed to rescue New York City.

The distinguished chairman of this committee was, of course, the driving force behind that package.

Roger showed intelligence, creativity, and tenacity during those years. And while the final solution took the work of many, none was as essential as Roger Altman.

But that was not his only significant achievement during his tenure. He also played a crucial role in the Federal loan guarantees to the Chrysler Corporation. He negotiated with the companies, the unions, the banks, and the Congress.

His efforts were indispensable in putting together the final package. The result was a solution that allowed Chrysler to recover so successfully that the company was able to repay the government long before anyone expected them to.

The skills that Roger developed from these experiences will be critical when he works with President-elect Clinton and Secretary Bentsen on a package to restore long-term economic growth.

He is a tough and savvy negotiator. And they will be asked to make a number of difficult choices. He has never shied away from making difficult choices.

Equally important as his experience in the public sector are his experiences in the financial markets. The Treasury Department will be well served by having one of our Nation's leading financial minds serving as Deputy Secretary.

Roger was most recently Vice Chairman of the Blackstone Group where he was responsible for their worldwide merger and acquisition business. Prior to that, he was one of the youngest people ever to be named partner at Lehman Brothers.

As we deal with an increasingly integrated worldwide capital market, an increasingly interdependent world economy, Roger's ex-



perience both within the beltway on Wall Street, and in the international financial markets will be invaluable.

Few people have been as committed to public service as Roger Altman. Roger has continued to think about our Nation's pressing problems. And he has written prolifically.

He has continued to serve as a fiscal advisor to New York City. He has served as the Director of the Children's Television Workshop and Johns Hopkins School of Advanced International Studies, and as a member of the Council on Foreign Relations. He also has served as Chairman of the Cities In Schools Program for New York City.

Looking at his record, what is crucial is Mr. Altman's intelligence, creativity, and ability to take on the toughest challenges in government. He has shown that the government can be a partner with industry in job creation and growth.

He has worked to revitalize both our economy and our cities. His knowledge of business and government and his record of accomplishment and commitment make him, in my view, an ideal candidate for the challenges confronting the Treasury Department at this historic crossroad for our Nation.

So needless to say, it is my honor to be here today and to give this strong recommendation in the form of an introduction to an extremely able person and a friend.

Senator MOYNIHAN. Thank you, Senator Bradley for a most forceful and impressive introduction.

Senator D'Amato, we welcome you, sir, today.

#### **STATEMENT OF HON. ALFONSE M. D'AMATO, A U.S. SENATOR FROM NEW YORK**

Senator D'AMATO. Mr. Chairman, let me first say what a great privilege it is to be before this committee and, particularly, to be before my senior Senator who is chairman of the Finance Committee. Let me commend you and say it is a great honor for New York State to have its senior Senator as chairman of this critical committee.

Mr. Chairman, I would like to ask that my statement be placed in the record in its entirety.

Senator MOYNIHAN. It is so ordered.

[The prepared statement of Senator D'Amato appears in the appendix.]

Senator D'AMATO. Many of the things contained in my prepared statement have already been alluded to by my good friend, the senior Senator from New Jersey, Senator Bradley.

Indeed, if there is one thing that struck me in my meeting with Mr. Altman, aside from his tremendous accomplishments, was that Roger believes in deficit reduction. Deficit reduction should be a top priority. Roger believes that private sector solutions to problems are better than government intervention. He believes strongly in the free-enterprise system.

If I did not know better, I would have thought that President-elect Clinton had actually appointed a Republican to his administration. That is a joke, Roger. [Laughter.]

I got a sense in meeting with Roger that he is someone who has a total commitment to public service. Indeed, his record demonstrates that.

Roger has not just been successful in his private sector dealings where he has been immensely successful at all levels, but he has also managed to give invaluable time and effort of himself to his community.

As you are aware, Mr. Chairman, when Roger Altman's name was made public in connection with the Deputy Secretary of the Treasury position, there was a very profound and positive impact on Wall Street. Roger brings that kind of experience to this job.

Once again, Roger comes forward to serve his country, as he did so ably, in his stewardship of the New York loan guarantee programs as the former Assistant Secretary of the Treasury.

So I certainly commend him to this committee. I would like to publicly commend Roger for his stepping forward to serve during these very difficult economic times when there will be major decisions made.

What a great team to handle these decisions, a team headed by our former colleague, Senator Bentsen, and Roger Altman who has developed so much expertise as to how the financial marketplace functions.

I commend President-elect Clinton, and I publicly thank Roger Altman for undertaking to serve with Senator Bentsen in the Treasury Department and really giving of himself in the truest traditions of public service.

Senator MOYNIHAN. Senator D'Amato, the committee thanks you for your characteristically generous and forthright statement.

I know that Senator Bradley would want to join us in the hearing.

And Senator D'Amato, you have four other hearings you are supposed to be at at this moment. I cannot doubt. Thank you again, sir.

Senator D'AMATO. Thank you, Mr. Chairman.

Senator MOYNIHAN. Thank you, Senator Bradley.

Mr. Altman, before we proceed, perhaps you would give the committee the honor of introducing Mrs. Altman who I see is there at your side.

If he gets anything wrong, do not hesitate to poke him in the shoulder blades.

We welcome you, Mr. Altman. Sir, you have a statement. It will be placed in the record or you can read it as you wish. And if you would like to proceed.

[The prepared statement of Mr. Altman appears in the appendix.]

#### STATEMENT OF ROGER C. ALTMAN, DEPUTY SECRETARY OF THE TREASURY DESIGNATE

Mr. ALTMAN. Thank you, Mr. Chairman.

Let me say at the outset that I am deeply honored by my designation by the President-elect as Deputy Secretary of the Treasury. And if I am confirmed, it will be a true privilege to serve under him. And I will devote all my energies to fulfilling his missions.

I would also like to say what a special pleasure it is, Mr. Chairman, to appear before this committee. I have had the privilege of knowing you for many years and certainly count myself among your admirers. I think you know that.

I also want to thank Senator Bradley, a good friend, for his kind words. And thanks to Senator D'Amato for noting my lifelong traditions as a member of the Democratic Party. [Laughter.]

I would also like to thank Senator Packwood for the opportunity to appear before this committee.

I had the opportunity to speak with almost all of the members of the committee before this hearing today. And I have listened carefully to their views. And I pledge to take them with the utmost seriousness.

I believe that under Senator Bentsen's leadership, we will see a period of unusual cooperation between this committee and the Treasury.

I would also like to point out how much I look forward to the opportunity to serve another time. I always valued public service. It has taken up a fair amount of my adult life in the Federal and the State and local levels in New York State.

If I am confirmed, this will be in a certain sense my fourth tour of duty. It is a wonderful part of the American system that there are such periodic opportunities to serve. And I value them very highly.

I look forward as well in a special way to working with Senator Bentsen. He will be a strong and effective Secretary of the Treasury. I think there is no doubt of that.

My impression is that he guided this committee with great skill in recent years and those same skills will be applied now to the Treasury. And in my view, the results of that will be quickly evident.

The economic challenges we face, of course, are daunting. And I had a chance, as I said, to discuss that with most of the members beforehand.

I think myself that the over-arching problem is that too many Americans are experiencing flat or declining standards of living. That is why they are uneasy over their economic security. And that is why as a Nation, we must change course.

The number one task, it seems to me, is to increase their real incomes by raising our levels of investment, training, education, private equipment, infrastructure, and the like. And deficit reduction, of course, is an important part of creating the private investment so critical to that.

Accomplishing those goals, of course, will involve very tough choices for the President-elect and for this Congress. We can begin to invest again and create high-wage jobs if we are courageous together.

I believe that the President-elect will provide the type of economic vision and leadership which we have been lacking so that in working with all of you, those goals can be reached.

I would just like to add one personal note at the end. In the spirit of full disclosure, there is one handicap that surrounds my ability to serve. And it is this, when I told my children that we might be



moving to Washington, my son, who is seven and a half, burst out crying.

And in order to console him, I made two promises, one of which was that I would take him every single afternoon to the Air and Space Museum. So if any of you would like to reach me after lunch, I will supply you with the number.

That completes my statement, Mr. Chairman. Thank you.

Senator MOYNIHAN. Thank you very much, sir. And welcome back for this committee. Of course, it is a great privilege to have you here.

I find that I have been talking a very great deal this morning. And I think the whole tone of this might be improved if Senator Packwood would join in our dialogue here.

### OPENING STATEMENT OF HON. BOB PACKWOOD, A U.S. SENATOR FROM OREGON

Senator PACKWOOD. Well, Mr. Chairman, there is nothing that I could ask or say that would improve on what you say. It may be somewhat different, but certainly not an improvement.

Mr. Altman, you have been around a fair period of time and have made some speeches and comments. And your philosophy is somewhat known I think.

And I am going to ask you how you will advise Senator Bentsen at the present, soon to be Secretary, not so much as to what you think that President-elect Clinton will do, but what will your advice be to him?

First, should we be moving more toward consumption taxes and away from taxes on savings and investment?

Mr. ALTMAN. Well, Senator, it is my view that as a Nation, we have been consuming too much and investing too little.

And I think in the overall context of public policy, we need to move away from that and toward higher levels of investment, as I mentioned in my opening statement. So that is the philosophical framework or at least one of them that I bring to this.

Senator PACKWOOD. Give me some ideas as to how we would achieve the moving away from consumption and the increasing of savings and investment. Would you do it through the tax code? Or are there other ways to do it?

Mr. ALTMAN. I think the number one way that all of us here in Washington can effect the moving away from consumption and toward investment is to reduce the deficit.

The public's non-saving represented by the deficit is obviously a form of consumption. And it has had pernicious effects, in my view, on everything, right up to standards of living. So that would be my number one objective.

Senator PACKWOOD. Would you do that with a combination of spending cuts or limitations and tax increases?

Mr. ALTMAN. I do not think that any true solution to the deficit can be done without both of those.

Senator PACKWOOD. Should the taxes be taxes on savings and investment? Or should there be taxes on consumption?

Mr. ALTMAN. Well, I think this new administration will be devoting a lot of time to that question. And, in fact, it is doing so right at the moment.

Senator PACKWOOD. What would be your advice to this administration as they are contemplating these issues?

Mr. ALTMAN. Well, my advice would be that we need to take overall steps, as I said, to reduce consumption and increase investment. And the number one thing to do in that regard is to reduce the Federal deficit.

Senator PACKWOOD. Do you recommend that we increase the tax on gasoline?

Mr. ALTMAN. I do not know what decisions will be reached in that regard, Senator.

Senator PACKWOOD. Mr. Altman, I know that. I want to know what your personal opinion is.

Senator MOYNIHAN. It will not be held against you.

Senator PACKWOOD. I have been here long enough, Mr. Altman. I can picture the scene of five or six people sitting around. And you are mowing over, what are we going to advise to President-elect Clinton? What do the facts show?

So I am interested in some of these issues and one of which is, will you recommend a higher gasoline tax? Will this be your input into it?

Mr. ALTMAN. Let me answer that this way, Senator. I do think that one form or another of a new tax on consumption is necessary.

I am in the midst together with a variety of other people, of course, of evaluating various alternatives for that.

And I have not made my own mind up as to which alternative makes the most sense from the point of view of policy, from the point of view of what is practical, but I do believe that we are going to have to move in the direction of some new consumption tax.

Senator PACKWOOD. In the past, you have—I do not know recommended, but opined on the subject of mortgage deductions for second homes and/or the present cap. I am not sure which. Are you recommending that the cap be lowered or that we drop the deduction on second homes?

Mr. ALTMAN. I have made no such recommendation.

Senator PACKWOOD. If we were to increase the present tax on incomes over \$200,000 and have a millionaire's surtax, in your judgment, would that be a tax on income or savings?

Mr. ALTMAN. In some respects, that is a semantical question. My own answer would be that those are taxes on income. In the last analysis, they have some impacts on savings, but I would regard them as taxes on income.

Senator PACKWOOD. They would not likely be called taxes on consumption in order to assume that everybody is a consumer. And therefore, if you take part of their money away, you reduce the consumption somewhat.

Mr. ALTMAN. Yes. I would not describe those proposed tax changes as taxes on consumption. That is not what I mean when I think of consumption taxes.

Senator PACKWOOD. What do you think about denying corporations the right to deduct salaries of over \$1 million a year?

Mr. ALTMAN. I generally favor that.

Senator PACKWOOD. Favor that?

Mr. ALTMAN. Yes.

Senator PACKWOOD. And would you also include in favoring that those years in which the income is from exercising stock options rather than just salary?

Mr. ALTMAN. I have not thought that through, but my instinct would be a bit towards the negative side on that.

In other words, if corporations provide deeper incentives for performance and lesser incentives that are not linked to performance, I think that would be a better mix of compensation theory, if you will, for the executives who guide our companies.

And one way to do that is to place more of their compensation in the form of performance-linked compensation. And one form of that, in turn, is stock options.

Senator PACKWOOD. In which case you are saying that you probably would not put stock options—I realize they are income—in the same category as a straight out salary, such as a \$2 million a year salary, no matter what the performance?

Mr. ALTMAN. I think the problem has been that in too many cases compensation has not been tied to performance.

Senator PACKWOOD. My last question, what do you think about a capital gains differential? And should it apply to existing property or new property? What do you think the holding period should be, assuming that you favor a capital gains differential?

Mr. ALTMAN. I like the proposal which the President-elect has endorsed, essentially the Bumpers proposal on venture capital and seed capital and the capital gains exclusions which would apply there and the de facto reduction in capital gains taxes that would accompany those.

As you know, they are tied to 5-year holding periods at minimum. And I think those are intelligent proposals.

Senator PACKWOOD. Thank you, Mr. Chairman.

Senator MOYNIHAN. Well, if I could just exercise for a brief moment here and next, we will go directly to Senator Breaux.

Mr. Altman, I heard you say in response to Senator Packwood who asked you, would you generally support or be inclined to favor a limitation on corporate salaries at \$1 million and you said that you were inclined to support that.

Mr. ALTMAN. A limit on the deductibility.

Senator MOYNIHAN. A limit on the deductibility for corporations?

Mr. ALTMAN. Yes.

Senator MOYNIHAN. Entertainment corporations?

Mr. ALTMAN. Pardon me, Senator?

Senator MOYNIHAN. All corporations?

Mr. ALTMAN. Well, you get into very difficult technical issues with things like partnerships and other legal forms of businesses, but at least as it relates to public corporations. And I think there is a major difference between public corporations and sole proprietorships and things of that nature.

Senator MOYNIHAN. Sure.

Mr. ALTMAN. But at least as it relates to publicly-held corporations, I generally favor that.

Senator MOYNIHAN. Thank you.

Senator Breaux.

Senator BREAU. Thank you, Mr. Chairman.



You do not favor limits on Congressional salaries, do you?  
[Laughter.]

Mr. ALTMAN. They seem to me to be limited enough.

Senator BREAUX. You are right.

I want to congratulate you, Roger, for your acceptance of the appointment. I think you bring a great deal of credibility to the office. Welcome back to government.

Mr. ALTMAN. Thank you.

Senator BREAUX. I know your acceptance of this position require great financial sacrifice by yourself and your family. I think that is an outstanding move on your part. And I think the government is going to benefit from your service.

Let me just ask a general question about your recommendations.

Many liberals, when they talk about economic policy—and I asked this of Senator Bentsen yesterday—argue that deficit spending and low interest rates are the right type of an approach to getting the economy going again.

More conservative economic policy would tend to argue that markets are the best way to get the economy moving and that government's best role is to help firms achieve the capital that they need in the marketplace in order to expand and grow.

Can you tell us your thinking about those two approaches to economic policy?

Mr. ALTMAN. Well, Senator, I have always believed that the key to national economic performance lies in the private sector and that the right role for government in terms of economic policy is primarily to provide the type of long-term stability, for instance, in relation to fiscal policy and the types of tax incentives, for instance, which stimulate private investment and other types of beneficial private sector behavior. And so my disposition is toward the private sector and private market side of that.

Senator BREAUX. The question of infrastructure spending, I think, is something that everyone on this committee—I know the chairman—is very, very concerned about.

The numbers showing what we have invested in infrastructure in the past several decades are terrifying and show how little we have invested in infrastructure in this country.

In the 1980's, the United States' net investment in infrastructure consumed only three-tenths of 1 percent of our gross domestic product as compared to 5.7 percent in Japan, 4.8 percent in Italy, 3.7 percent in Germany.

What is your recommendation likely to be to try and solve this problem?

Mr. ALTMAN. I think there is no question, but that we must increase our infrastructure commitment at the Federal level. And I think it is one of those things where common sense tells you the answer.

In other words, Senator Moynihan and I are from New York, but the same point could be made anywhere around the country.

If you just drive around a little bit in this country, especially in the older regions, and drive around a little bit, for instance, in Europe, you will see what our problem is.



And I think it is a serious competitive problem for our country. I think it imposes, in effect, higher costs as it relates to distribution of goods and services and that it is a very serious problem.

So as the President-elect has said so often, we must make an increasing commitment to infrastructure, financial commitments, and policy commitments a central part of our economic policy.

Senator BREAUX. We are going to spend more on infrastructure. It has to come from somewhere. It is either going to come from savings or from taxes or a reduction in spending.

One of the reports that has been in the paper is a report this week in the Washington Post. It said, "HHS has a report that urges raising the Medicare age."

And there have been some who have considered even moving forward the existing Social Security increase in retirement age. It is on the books now.

But this internal government report recommends gradually raising the Medicare eligibility age from 65 to 67, pointing out that phasing that in over 25 years would save substantial amounts of money.

Studies show that gradually changing the Medicare entitlement age to 67 would save three-quarters of \$1 trillion over a 30-year period.

I know it is a very touchy political issue. I suggested it to Secretary Designee Bentsen yesterday that perhaps Congress consider another commission to consider whether we should do it or not, perhaps to give backbone to Congress.

Do you have any thoughts about the concept or any suggestions as to how we might approach that question?

Mr. ALTMAN. I would make two points. The first is that I am not steeped in that particular issue. And I do not have a view as to whether those precise ideas in regard to Medicare makes sense or not.

My second point, however, would be, as I responded earlier to Senator Packwood, putting this Nation on a firmer course in terms of fiscal policy is going to require contributions, if you will, from the revenue side and from the spending side and within the spending side, from entitlements.

We cannot solve this problem without some changes in the rate of growth of entitlement spending. I do not know whether they should come from that proposal that you mentioned or from the myriad of other proposals that we all see, but—

Senator BREAUX. But entitlements are on the table for consideration?

Mr. ALTMAN. Must be.

Senator BREAUX. Thank you, Mr. Chairman.

Senator MOYNIHAN. Thank you, sir.

May I just say as a point of reference here that what I find interesting about the hearing we are having today and yesterday with Senator Bentsen is that almost without exception I think that it would be possible to go back to those hearings in 1980 and find the same statements being made: that we are saving too little and spending too much, consuming too much, that there is a problem of a deficit, that the entitlements are growing.

And it is important when you observe a pattern in which individuals or organizations keep saying one thing and doing another over and over.

The words of the last decade, the term "capitalism" has become respectable again. Thank goodness. And it was clearly in the dynamics of capitalism that the time would come when having formed all of that capital, you would want to get a return on it by consuming its output. And there would be a change from spending to consuming.

It is no accident that advertising became the great industry of America in the 1920's. All that consumption had been forgone all those years. Now is the time to cash in by getting people to spend.

That is not a very abstract theory of late capitalism, but you see people sitting around and wondering why has it changed. Well, it was destined in that sense to change.

And on the deficit, we still will refer to conservatives as people who believe in pay-as-you-go government, low-spending government, and so forth.

What is the use of those terms in a situation? It was the conservatives who took the Federal debt and quadrupled it in 12 years.

What then does the word conservative mean? We will leave that to Senator Riegle who might want to discourse on the subject for a bit.

Senator Riegle.

#### **OPENING STATEMENT OF HON. DONALD W. RIEGLE, JR., A U.S. SENATOR FROM MICHIGAN**

Senator RIEGLE. Thank you very much, Mr. Chairman.

First, if I may, let me say, yesterday I was unable to be here for Senator Bentsen's confirmation hearing because we had Secretary Cisneros upstairs in the Banking Committee. That was a direct timing conflict.

And so I did not have the chance then either to address his nomination which I strongly support nor to acknowledge your ascension to the chairmanship of this committee, Senator Moynihan.

And I just want to say a word with respect to that because I think probably no one in the Senate over a period of years has demonstrated more vision.

I am going back now some decades into the past in terms of seeing things and anticipating things and attempting to respond to them as you have done. And so I think the opportunity to have you serve as chairman of this committee is really a wonderful opportunity for the country.

And in that vein, as I have watched the City of Washington, DC change because you have taken a very particular interest in the rebuilding efforts along Pennsylvania Avenue with various government buildings and such, it has really been a remarkable change not much noted, but, I think, a very lasting and significant value to the country, but very much in keeping with the kind of sense for history and wise architecture, whether it be in the tax structure or welfare policy or urban problems or even in the question of how we rebuild this city.

And so I think this is a special moment. It is in the sense that Mr. Altman is standing ready to assume his duties, but very much so in terms of you assuming those duties.

And I for one am very enthused about that. And I just wanted to make my comments at the outset.

Senator MOYNIHAN. Thank you, sir.

Senator RIEGLE. Mr. Altman and I had the opportunity to work together with some intimacy on the Chrysler loan guarantees years ago. And I remember that experience very fondly and look forward to working together now.

Let me just say two or three things and I then want to ask for your response. I am very concerned about our economic situation in the country. And I think it is far more serious than some of the drum beat is right now in some of the press reports and some of the latest fragments of economic data.

I think the underlying trend lines are very much a problem for us. And I want to get into that as time allows a little bit later this morning.

And I am very concerned about the grinding down of the middle class and the loss of jobs and the failure of us to be able to bring new well-paying jobs on-line fast enough to really meet the needs of our country.

And as I study it, I am more and more convinced that the asset that every country now in the world has awakened to needing and wanting and working toward is to build a very strong job base for their people because that is the heart of their economic system.

What is produced by a national work force in all of its elements is what really provides the standard of living and the well being of a Nation.

And other Nations have paid great attention to that. They have very elaborate plans, different in their own ways. The Japanese are one example.

And there are many others around the world, but if you look at our trend lines—and I brought some charts that I will get into just a little bit later with respect to trading patterns that particularly will fall under the important review of the Treasury Department—I see the United States sliding backwards in a number of areas.

And I am greatly concerned about it because I think we are pulling the social fabric apart in ways that are going to be very hard to repair.

And there is tremendous damage being done, damage being done to individuals, to families, and, I think, to the industrial base in other areas within our country.

The best analysis that I can do indicates to me that we need to bring on-line essentially in the private sector about 8 million jobs over the next 4 years. Now, that is going to be a very big climb from where we are now.

If you look at that, that is about 165,000 jobs a month on average, if you had a linear growth of 8 million jobs. And we are not anywhere near close to that right now, even though we are said to be in something of a recovery finally.

We are not seeing anything like that kind of new job growth in the economy. Many of the jobs that are coming on-line are low-skill, low-wage jobs.



So to get up to a standard of being able to create, say, 2 million jobs a year and 8 million jobs over 4 years, I think is going to be very, very difficult for us to do, but I think that is what we have to do.

And the question in my mind and the question I put to you is, number one, do you agree that the job goal of something on the order of 8 million jobs over the next 4 years is the goal we should be setting?

And number two, are we going to see a bold economic plan, a bold economic plan of sufficient scale and size and impact coming from the new administration promptly that can take the wave off this election and really move us ahead so that we position ourselves for economic growth of the kind that can bring on-line something like 8 million jobs over the next 4 years or very specifically 2 million jobs in the year that has just started, 1993?

Mr. ALTMAN. First of all, I agree with your 8 million job goal. As you know, the President-elect used that precise figure during the campaign. That is his goal. And he certainly is intent on seeing that occur to the best of his abilities.

Senator MOYNIHAN. Mr. Altman, what did President Bush promise, 12?

Mr. ALTMAN. Eight.

Senator MOYNIHAN. Eight. That is the number he promised?

Senator RIEGLE. He promised, I think, 30 in 8 years. Of course, he got 4 years and came very short of even a tiny fraction of that.

But do you think 8 is the goal that needs to be set as President-elect Clinton has said?

Mr. ALTMAN. Yes. I think that is a good goal.

Second of all, in terms of the boldness of a plan, I think, there are three components to that. One is some stimulus now.

A second is increasing our rate of investment at the Federal level. And a third is reducing the deficit to free up the savings to increase the rate of investment in the private sector.

I believe we will come forth with a stimulus program. I believe you will see the President-elect proposing some very significant new investments, as he talked about during the campaign, in education, in job training, items you mentioned, as well as infrastructure and the like.

And third, I think the plan to reduce the deficit, in other words, even taking into account those new investments, reducing the deficit on a net basis, I think, will be an aggressive one. That is certainly the spirit of the discussions that are going on now.

Senator RIEGLE. Just finally, I know my time is up.

Senator MOYNIHAN. No, sir. Please go ahead. You have a lot of time.

Senator RIEGLE. Thank you.

Not to break the continuity on this point, when would you think that we might have that plan presented to the Congress, the part of it that will come before this committee and the parts that may go to other committees? What is likely to be the timing on when we receive that plan?

Mr. ALTMAN. I do not know the answer to that, Senator, except that everyone recognizes on our end of it the urgency.

And my sense is that the President-elect wants to come forth with this plan quite soon after the inauguration, but precisely when that is as it relates to one week against another, I am not sure yet.

Senator RIEGLE. I will just make a comment and then yield in the interest of time and come back later. I think in watching now over the 26 years that I have been here, just the pace of events and these time windows that are open to us and present themselves, I think that if we do not have that plan within a very short number of weeks after the swearing-in of the new President that we will find ourselves with a loss of momentum coming into the legislative year that I think could be very, very costly.

And I do think the country cannot afford it. I do not think the public will accept it. And so I just want to stress the fact that, I think, time is really of the essence in deciding what that plan looks like and making sure that it is sufficiently bold and it has enough muscle to it that it is really going to make a difference.

Mr. ALTMAN. Well, if your standard is a few weeks, Senator, I am confident we will meet that.

Senator RIEGLE. Yes. Underline the word "few."

Senator MOYNIHAN. I would thank you, Senator Riegle. And we will get back to your questions.

I just would like to underline what Senator Riegle has said. And I think Senator Packwood would agree with me. By the middle of March, this committee will be dealing with a recurrent event which tends to absorb all its energies, which is to say, legislation to increase the debt ceiling.

It is 10 years since our colleague, Senator Danforth, who cannot be here, describing the Senate debate and referring mostly to his own side referred to the body as catatonic, "What, us increasing the debit ceiling? No, no. We do not do that." Oh, yes, you do. And you do not do anything else until you have done it because if you do not, you default.

Would Senator Packwood agree in that regard?

Senator PACKWOOD. Yes, I would.

Senator MOYNIHAN. Senator Grassley, sir.

Senator GRASSLEY. Thank you, Mr. Chairman.

First, two points I would make. One would be a point and one would be a question. They would be kind of a follow-up on the discussion that you just had with Senator Packwood in his questioning.

Your point, I agree with, reducing consumption. And that has something to do with reducing the deficit. I assume that is because the budget is 25 percent of the gross national product.

In the pursuit of that, it seems to me that you have to reduce expenditures or at least reduce the rate of the increase of expenditures.

You will not be doing that even if you reduce the deficit, if you increase the budget as a percentage of the gross national product or if you increase taxes and have the government spend it even if you do not reduce the deficit as a percentage of the gross national product.

So I think you would have to be very careful as you pursue that because of the impact of the Federal budget on the economy and

on consumption, that you make sure you are reducing it as a percentage of the gross national product.

And it does not seem to me that if your idea is to raise taxes as well as reduce expenditures to get the deficit down that you are really going to accomplish what you want to accomplish, that it has to be expenditures and not taxes.

The question would be related to another point, and that is, asking you about your personal views. Now, I do not expect you to answer it any different than you did, but did you not publish in 1990 support for an increase in the gasoline tax?

Mr. ALTMAN. I believe I did. Yes.

Senator GRASSLEY. All right. On another point and more related to my own questioning, in your pursuit of revenues, especially in regard to gas taxes and fuel taxes I think I have expressed to you—well, I have not expressed to you, but I do not think it is a very good idea. But has the economic team specifically looked at the well-known problem of fuel tax evasion and billions of dollars being lost already in taxes owed?

And this is a subject of pursuit by the IRS, the evidence before the House Ways and Means Committee looking into it that organized crime has been involved in the fuel tax evasion.

I guess I would ask, has the economic team looked into it? And if they have, what steps would be taken in the new administration to try to collect these taxes before fuel taxes are proposed? Probably \$1 billion would fall into this category.

Mr. ALTMAN. We have not reviewed that to date, Senator, but as someone who hopes to serve in the Treasury Department and interact regularly with the IRS, I believe we will see a mindset of strict enforcement and an effort to raise the compliance rate in general.

Senator MOYNIHAN. I have heard of that before.

Senator GRASSLEY. Well, there is \$1 billion there. I do not know whether you will get all of the billion dollars, but it seems to me that you ought to make an effort to get it before we talk about increasing gas taxes, if you do talk about it. I am not saying that you will talk about it, but if you do.

In regard to the investment tax credit, a great deal has been said about the need and the effects of that. I have supported the ITC in various forms.

There was on January 7 a CRS Report that argues that the investment tax credit could substantially increase the deficit, especially if it is not incremental.

How do you see the investment tax credit fitting into your deficit reduction plan and/or economic revitalization plan?

Mr. ALTMAN. Well, during the campaign, as you know, the President-elect spoke out often in favor of an incremental investment tax credit. And I believe we will propose that.

And while there are tricky issues of design when you try to do it on an incremental basis, defining the historical base and so forth, I think the bang for the buck there, as Senator Bentsen described, is very attractive.

That would be a type of investment which I referred to in responding, for instance, to Senator Riegle that we would propose to make.



And we do look upon the deficit reduction task as one where we will have to reduce the deficit that is now baked in as well as pay for the investments like that that we propose to make, all on the context of getting that deficit down.

Senator GRASSLEY. Before I go on to something dealing with a broader issue, just an editorial comment on my part on the subject of raising taxes and the deficit reduction as a package. I think it follows along what Senator Packwood said to you on whether or not the tax increase would be used for deficit reduction.

If you tie the things together in a package without first getting the expenditure reductions, let me tell you, based upon the Tax Bill of 1982, the Tax Bill of 1984, and the Tax Bill of 1990, you just end up with the tax increases being eaten up in higher levels of expenditure, not dollar for dollar reductions.

And so I hope you will not make the same mistakes that we in Congress have made in the past and to some extent previous administrations have made. Even my own party has been involved in it.

Just do not make those mistakes. Learn from those mistakes. Otherwise, you are going to go in the same direction that we did and not get the deficit reduction you want.

Senator Breaux asked you a question about industrial policy versus free-market policy. I do not want to repeat that, but I would like to have you respond to a comment in this morning's Wall Street Journal which maybe you have not seen, but I think I can give you enough of it so you can respond.

Senator MOYNIHAN. May I say, Senator Grassley, the idea that Roger Altman would begin the day without reading the Wall Street Journal— [Laughter.]

Senator GRASSLEY. Well, I am sorry. I should have understood that it is the first thing you do when you get out of bed in the morning. I am sorry.

Mr. ALTMAN. That is before getting out of bed, Senator.

Senator GRASSLEY. Before getting out of bed. All right. [Laughter.]

Yes. But so that you know that we have a certain philosophy of government and industrial and economic policy with the Bush administration leaving that is expressed how is it the next day things might change?

The Wall Street Journal mentions President Bush's Council on Economic Advisors Final Annual Report. It says, "There is no reason to believe that bureaucrats or politicians are better able than private individuals or firms to allocate resources to their most productive uses."

And then in introducing the report, President Bush stated, "While some government regulation is necessary, it should be limited to only those areas where serious market failures require attention and should provide maximum flexibility for the private sector to comply with regulations."

How are things going to be different January the 21st compared to January the 20th on that point?

And I think it relates somewhat to industrial policy. But if it does not relate enough to industrial policy, I still want you to comment.



Mr. ALTMAN. I think it would be hard for a sensible person to disagree with those two statements that you quoted. I do not regard those as partisan in the slightest fashion.

Senator GRASSLEY. All right. Something you and I discussed in my office that I want to get on the record. The previous administration in the Treasury Department under Republicans said there are too many banks. Do you think there are too many banks?

If there are too many banks, what is the advantage of fewer banks? And what are you going to do about having more banks or less banks?

I do not happen to think that there are too many banks; however, if there are too many banks, I do not believe we ought to seek a political solution, just so you know where I am coming from.

Mr. ALTMAN. I do not think the goal of policy should be to reduce the number of banks in this country as a goal onto itself. I do not think that is the issue.

I think the issue is the strength of our banking system, particularly as it relates to the competitiveness of our country. Twenty years ago, we had, by most accounts, the strongest banking system in the world and the strongest overall financial system.

I do not believe that is the case today. And there have been a variety of events that we are all familiar with, which have weakened our banking system. And there are certain limits on the activities of banks, which also are, in my view, somewhat uncompetitive. They do not serve a goal of competitiveness.

Now, market forces, as you know, are driving a consolidation wave in banking. And that, it seems to me, is likely to continue. And to the extent that leads to stronger institutions and, I think, in part it is leading to stronger institutions and that is a good thing for our country.

But simply setting a goal of less banks for the sake of it, I do not think is the point.

Senator GRASSLEY. Responding to that, then, you would not pursue governmental policies that would have the end result of fewer banks?

Mr. ALTMAN. I did not say that.

Senator GRASSLEY. Well, in other words, this is the crux of whether you are going to have a political decision or a market decision on whether or not there are going to be less banks.

If you did not say that, then in a sense, you are saying that there should be some public policy that would lead to fewer banks, which is a political decision.

Mr. ALTMAN. No. Senator, what I am trying to say is that there may be some policies which make sense in regard to competitiveness, in regard to strengthening our banking system, which have as an effect greater consolidation of our system. And I think, as I said, the President-elect—

Senator MOYNIHAN. Senator Grassley, I think we are going to have to move on. There will be another round of questions.

Senator GRASSLEY. Thank you, Mr. Altman.

Senator MOYNIHAN. Could I just make a point? The excerpts from the economic report which Senator Grassley read and which President Bush endorsed and which you agreed with, those are part of the routine of political statements at this point in life.

Has there been an economic report in the last 20 years which said otherwise?

Mr. ALTMAN. I doubt it.

Senator MOYNIHAN. Yes. Now, the question is, when everyone agrees—

Senator GRASSLEY. But you do not know for sure. You do not have in your mind exactly what every introductory comment on the 20 last annual reports has said. You might fairly assume this.

Senator MOYNIHAN. No, not so bad. I have known every one of those chairmen. And I do kind of read that report because it began with the Employment Act of 1946.

And then it was designed, the whole purpose of that enterprise what began as the Full Employment Act. I think I have read that. And I think, as Mr. Altman says, that is about what you say.

Now, there gets to be an important point in any social organization, as I said earlier, when you keep saying one thing and another thing happens, you have to ask, what is the systemic process here?

Can I tell one quick war story, just one? In 1966, a very fine, much loved Mayor of Boston retired. And MIT asked him if he would be an adjunct professor of urban studies. And he came and he said, "Sure. I would like that."

And he found he had an office next to a very distinguished electrical engineer named Jay Forrester who developed the MIT patent, the Forrester patent, the first computer chip. And he was one of those fellows.

And he got very friendly, a Yankee type, and got to know these Irishmen who were next door. And the pals would come around at the end of the day and talk about things.

And Forrester got fascinated because all they talked about was how, "We tried this. And it did not work. And we tried that. And it did not work."

And Forrester said that there is a pattern here. And he later developed it in a very important book which says, "Oh, yes. A affects B. And B affects C, but you do not know that C affects D in ways that affect A." And then, they changed it in the feedback process.

Something is going on. I do not claim to understand, but when you see this pattern of continued assertion that we will do this and then we do something else, it is time for a little more sophisticated thinking than repeating every statement in every introduction to every economic report in the last 20 years.

Senator Conrad is not yet formally a member of our committee, but he is already participating in our activities. And there being no objection, Senator Conrad.

Senator CONRAD. Thank you very much, Mr. Chairman. And again I thank the members of the committee for their indulgence.

First, I want to welcome Mr. Altman. I was very enthusiastic about your appointment because I know of your record and your interest and commitment to deficit reduction.

I myself am persuaded that this is one of the foremost goals of this administration and should be one of the foremost goals of Congress. And with the leadership of people like yourself and Senator Bentsen, I am convinced we will make real progress.

One of the things that I wanted the chance to visit with you about is the debt as a percentage of our gross domestic product.

We, in 1981, got down to, I think, about 33 percent, roughly that, debt to gross domestic product.

Now, we have seen in the last 12 years a dramatic increase in the debt to gross domestic product. I think we are about 73 percent now, so more than doubling of our debt to gross domestic product. Why does that matter? In your judgment, what difference does that make?

Mr. ALTMAN. Well, first of all, servicing that debt eats away at the Federal budget as a tool of policy in a relentless way, like a termite eating the foundation of a house.

And I am referring, of course, to the interest expense portion of our Federal budget, which is now about \$200 billion and is growing every year as a percentage of the budget.

And Senator Moynihan often says, and he said it yesterday and I agree with it, that one of the objectives of fiscal policy in the early 1980's was to reduce the flexibility of the Federal Government as it relates to spending and as it relates to spending in terms of implementing policy goals.

And the interest expense and the growth of the interest expense is one very vivid manifestation of that. And, of course, that translates, in effect, into a higher burden on every American to help to service that debt. And in that sense, it reduces the productivity of our country.

Now, one goal that we have as a new team is at minimum to stop that growth, to stop the growth of the debt in relation to the size of our economy.

And I believe that you will see in the plan which the President-elect lays out shortly after inauguration that one of its effects will be to do that.

Senator CONRAD. Well, I thank you for that explanation. It is not really for the benefit of the committee because I know every member of this committee understands it.

It is really for the benefit of a wider audience because I find when I go home and visit with my constituents, I have people who ask me, "Senator, you talk a great deal about the need to reduce the deficit. Why is that important?"

We have seen the national debt grow dramatically as the deficits have grown. And people ask me, "What difference does it make? The economy still seems to perk along. It is growing again. And yet we have these massive deficits. So what difference does it really make?"

I think the more we are able to share with people the difference it really makes, the more support we are going to have for the steps necessary to contain it.

Let me just add my voice to Senator Riegle's, if I could, to stress the urgency with which I view the need for a plan from the incoming administration.

I watched the previous administration lose what I thought was its major opportunity right after the swearing-in of President Bush. In that first year when there was a well-spring of support, there was a desire for bipartisan cooperation.

There were those precious moments of the early term of a President when, I think, there was a golden opportunity to pursue get-



ting the fiscal house of the United States back in order. In my judgement, they dropped that ball.

I hope that you go back to the team that is being put in place and say, "One message we have gotten very clearly up there is, number one, we need to be bold; number two, we need to move quickly." I think there is a tendency for the passage of time to dissipate the era of can-doism that is needed up here.

I hope that you will take the message back that there is really a need, not only to be bold, as we discussed yesterday, but also a real need for a sense of putting on the table a plan that people can digest and start selling to the American people and start selling to Members of Congress as well.

I want to thank the chairman and thank the witnesses as well.

Senator MOYNIHAN. I want to thank the Senator from Nebraska for a statement, I think, we would agree with on all sides.

Senator CONRAD. Please do not move me to Nebraska.

Senator MOYNIHAN. I mean North Dakota.

Senator CONRAD. We love Nebraska, but not that much.

Senator MOYNIHAN. Not that football team. I am sorry.

Our next western Senator from the great State of Montana, Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Altman, in the spirit of boldness, let me ask you a question.

Before I do, I very much underline and reinforce the statements that not only Senator Riegle, but I am sure others made, namely, we have a great opportunity now.

I mean, you are the new Deputy Secretary of the Treasury. Our present chairman is about to be the new Treasury Secretary. A new President, a new Vice President, a new chairman of this committee, a new year.

This is a major opportunity for change, at a time when we all know that the American people are very unsettled. They are very anxious. They are very uncertain. A lot of people have lost their jobs.

People know we are in worse shape than we have been in recent years. And if the present trend continues, we are going to be in worse shape.

I am very heartened frankly in the last several days to hear testimony of a lot of Cabinet designees that are addressing the revenue side of all of this, and mentioning that unmentionable, entitlements.

And not only are we talking about entitlements, but we are talking about it with vigor. We are not doing it tentatively. We are not tiptoeing around it on eggshells. I mean, it is clear that entitlements are part of the solution.

Now, let's talk a little bit about the revenue side, another unmentionable. I do understand, although I was late coming to the hearing today, that Senator Packwood mentioned consumption taxes. I would like you to further explore with us the role of consumption taxes.

I firmly believe that we have an opportunity now to address progressive, thoughtful consumption taxes, to help Americans begin to invest a little more in the future, invest more for our kids in this decade and the next century, and to lengthen our time horizons.

We should think in terms of changing or tilting our tax structure in a way that encourages us to invest more, save more, invest more.

We don't need to gouge the middle class. In fact, combined with other tax changes, consumption taxes can give the middle-income taxpayers of this country a bit of a break.

Could you again explore this: how we begin to move this big ocean liner of ours, this country, to get it changed a little bit on a course that makes sense, recognizing that we are the only OECD country that does not have a value added tax?

Mr. ALTMAN. Well, as I said earlier, I think as a Nation, we are going to have to adopt some new tax on consumption.

I think one of the responsibilities we all have is to try to explain properly to the American people why that may make sense and what the benefits of it are in relation to the number one issue or at least as I think of it which is standards of living.

We all talk a lot about the economic anxiety among our citizens. And it seems to me that it is rooted in two things. One is jobs: on the one hand unemployment and on the other hand fear of losing a job.

And on the other side of it, it is making ends meet, the greater and greater difficulty in recent years that Americans have had in making ends meet.

So I think any new step, like a consumption tax has to be put into the context of whether it serves those goals over the long term. There are always going to be issues of timing and things and short-term effects and long-term effects.

Now, as you know, Senator, at least as well if not better than I know, there are a number of different, widely discussed possibilities on consumption tax. You referred to one, a value added tax.

I have seen and participated in a lot of very stimulating discussions about the possibilities of a progressive value added tax. And your comments about the middle class point out how important it would be to make it progressive.

After all, the most common criticism of a value added tax is that it is regressive, but there is an opportunity there, for example, to take very large amounts of Americans out of the income tax system as a way of making it progressive.

Second of all, there is the type of idea which Senators Nunn and Domenici put forth not too long ago, the essence of which is that taxable income would be defined as gross income less savings. That is a rather interesting idea, it seems to me.

And then, we have, of course, as was mentioned earlier, more targeted types of consumption taxes, like energy taxes which would have certain benefits beyond just consumption: environmental benefits, conservation benefits, and so forth.

I do not know where the incoming administration will come out in this area. Moreover, I do not want to signal that it is going to be part of our original package because it may well not be. I just think that is in the balance here. I am not sure which way that will go.

As you point out, we are the only industrialized Nation which does not have some larger form of consumption tax than we now

do have. And our savings rates and investment rates are at the bottom of the G-7. And I think there is a connection there.

Senator BAUCUS. Thank you.

Senator MOYNIHAN. It is interesting. And I think we all agree, to name a number of things that we are talking about which were not in play 10 years ago or thought not wise to discuss, gasoline taxes, consumption taxes, value added taxes.

May I make a point on this whole savings and consumption business? There is a life cycle. And we all go through it individually. We are very much aware of it.

I am not so sure how attractive an idea of a tax would be that a husband and wife putting three children through college would be taxed more because they are not saving any money than a couple, such as ourselves, our household. We are finally after 40 years beginning to save a little money.

So we would pay less than at the time when you could look at the college tuition and theoretically you had no money left over of any kind. How you lived was a mystery.

But that pattern of consumption and savings is one that does not fit very well into a fixed formula: if you do not save enough, you get taxed more.

Mr. ALTMAN. May I comment?

Senator MOYNIHAN. Yes. Please do.

Mr. ALTMAN. Well, all of these alternatives on consumption taxes, I think, have to be paired with one or both of the following. They have to be paired with ways of making them progressive.

And, for example, on your point, I think if one ever went that way, call it the non-Domenici way, you would have to do a great deal more on the steepest of the tax rate in order to make it progressive.

And the second opportunity is the idea of a dedicated tax. In other words, it might develop that the best way to go to the American people on a consumption tax would be to dedicate it, dedicate it, for example, to paying the cost of universal access on health care so that there is a clear and defined benefit. I do not think that we can just go to the American people and say it is time for more taxes.

Senator MOYNIHAN. That is a good statement. Someone who would agree with you, I think, and we are going to find out, is Senator Durenberger.

Senator DURENBERGER. Thank you, Mr. Chairman.

Mr. Secretary Designate, I appreciate you being here. And I appreciate the early opportunity I had to get to know you better, and the frankness of your answers, particularly today.

And I have a statement to be made part of the record.

Senator MOYNIHAN. So ordered.

[The prepared statement of Senator Durenberger appears in the appendix.]

Senator DURENBERGER. What is left here in the committee just came down from Environment and Public Works. And that is why we are late. I apologize. I am sure the chairman has already remarked on that.

I appreciate your frankness on the last comments relative to consumption.



I do not know if you knew Mark Willis when he served in the 9th Federal Reserve District under General Mills.

Mr. ALTMAN. I did.

Senator DURENBERGER. But I think it was back in 1978 or 1979, I think he claimed the term, or at least made it recognizable, of "expectation of economics".

And I have not seen anything in the time that I have been here over 14 or 15 years that would cause me not to believe that that is where we are in the country, that you send signals out there from this place or any other powerful place in this country and people are not quite responsive to those.

So I fully endorse your comments relative to consumption versus savings because they point to long-term directions. How you go about it, I think, it is appropriate that you lay out progressivity.

And dedication is probably a political response because you are not going to get this sort of thing unless you are dedicated.

But I appreciate those comments. And I hope this committee spends some time on that particular subject.

There is one that I want to strongly warn you off of dedicating any of that to health care coverage. There are so many inefficiencies in the current social insurance and tax system that are wasting money.

I think the favored figure is 35 or 36 million uninsured and another 30 million underinsured. We probably have 125 million overinsured in America today.

And underlying all of that is a series of subsidies. Medicare is relatively wasteful. Medicaid is quite wasteful. The so-called employer paid tax system is not at all needs oriented or needs oriented at best.

So I strongly warn you off any notion that you are going to use that kind of a tax for the broadened coverage, but let me explore with you for just a minute what you have learned and what your sense is of the most appropriate way to subsidize entitlement programs or anything else.

Let me put it this way. The direct entitlements that we do here, like Social Security and Medicaid payments and so forth are a relatively inexpensive way to transfer money from one generation to the other.

The indirect entitlements seem to be more expensive and perhaps less efficient. An indirect entitlement would be the mortgage interest deduction or the tax exemption for pensions and so forth, in which they are heavily weighted in favor of people who have a lot of money or a lot of income or a lot of support from a third-party payor of some kind, as in the case of employer-paid health insurance, and weighted against a lot of other people. And then, there are transaction costs in between.

And let me add another because we do it here. We used to do general revenue sharing here, which was just directly sending money back to the local governments. Other people do categorical grants which drop down the efficiency scale, if you will, to about 80 percent.

Then, we do tax exempt bond financing, mortgage revenue bond financing, a lot of those sort of things which I am told drops the



sort of efficiencies, because of the transaction costs and everything else, maybe down to the 70-percent category.

Do you have some views for us as we approach the whole issue of the entitlements, of the way in which either tax or other policies provide subsidies to get people to provide for their needs in health or education or housing or whatever? There are some of these that are better than others.

Mr. ALTMAN. I am not sure whether this is going to be a direct response to your question, but I have thought for a long time that too many of these subsidies are not means tested. They are subsidies regardless of income or regardless of wealth.

And the Cadillac health care plans you refer to are an example of that. That the tax ability of Social Security income has nothing to do with one's overall income is another example of that.

And one reason that the rate of growth in entitlements is so sharp, I believe, is the absence of that in so many cases. That is just a philosophical point.

You raised other questions about the efficiency of some of those subsidies and some of the frictions that may be involved there relative to markets, but I do not think that is the main issue. I think the main issue is who we are trying to help with these subsidies and who needs help and who does not.

Senator DURENBERGER. Mr. Chairman, could I ask just one other question?

Senator MOYNIHAN. Would you, please.

Senator DURENBERGER. I see that the time is up.

Senator MOYNIHAN. No. We are all right. Senator, Mr. Altman has plenty of time. And there are only two of us here.

Senator DURENBERGER. I am worried about John.

In the last Congress, we authorized a demonstration of what we call an income-dependent access to higher education. The current system is a series of contributed savings and so forth: parents contribute to their kids higher education, Pell Grants, student loans, and so forth.

And I think we began the process of moving from the means-tested student loans peddled by Sallie Mae and people like that in the market to an income-dependent education program in which everyone can, in effect, borrow against a trust fund of some kind as long as they repay back through the Internal Revenue Service the money that they borrowed.

And people who have lower incomes will pay back at a lower rate than people who have higher incomes. We just started with a demonstration of that.

We are kind of anxious to persuade President-elect Clinton because this sort of approach to financing higher education seems to have been built into his campaign platform, that perhaps he ought to accelerate that from a demonstration to the actual beginning of a program.

It would require getting some money from somewhere, either from the Social Security Trust Fund or as we have proposed, creating a separate and new fund.

The previous administration opposed this whole proposal on several grounds. One of them was, "We do not need to create any new borrowing mechanisms."

Are you generally familiar with this new proposal? And do you have some thoughts on its appropriateness?

Mr. ALTMAN. No. I am not particularly familiar with that proposal. The President-elect, of course, feels very strongly about higher education. And his National Service Trust idea is a clear example of that.

I think myself that that is one of the most, if not the most, innovative idea that he put forth during the entire campaign.

And as you know, the notion is that anyone who is accepted to college would be able to have his or her education financed federally in exchange either for a period of community service or, of course, an agreement to attach or garnish a portion of their subsequent income for purposes of repaying the original loan.

So I think my point in raising that is how seriously he feels about that type of higher education.

I am not, as I said, precisely familiar with your point about income-dependent education financing. And therefore, I cannot really speak precisely about that.

Senator DURENBERGER. I think it is the same thing you just articulated as far as the President-elect's position.

The question will be, how do you front-end it? And that will be a decision that a lot of people probably will be involved in. And then second, how do you collect the money?

The preferable mechanism—and I think several members of this committee are cosponsors of this—would be to have the IRS deduct an appropriate portion from people's income.

Senator MOYNIHAN. Just to make a quick point to say to Mr. Altman that this committee is going to be watching because we have heard all these proposals. We have heard all these undertakings. One by one, the campaign commitments fall off.

We think they are falling off before they take the oath of office. We note that the economic report says, "Too much regulation" and so forth.

But what is the one program we dropped in this committee? Of course, in the 1980's, as Senator Durenberger says, revenue sharing, the simplest way to get revenue to States and to our programs and our little detailed efforts.

No one knows more about this than Senator Chafee, formerly Governor Chafee.

Senator CHAFEE. Well, thank you, Mr. Chairman. As you recall, we dropped revenue sharing because we did not have any revenue to share.

Senator MOYNIHAN. That is right. [Laughter.]

Senator CHAFEE. Mr. Altman, let me just throw a little cold water on the suggestion that there be dedicated funds. Perhaps my vies derive from my experience as Governor, but they have been amplified by my experience here. I am against dedicated funds.

Now, it is true, if you look in the record, you may find that I have proposed dedicated revenues some for things I like particularly. [Laughter.]

But overall, I think they are a bad idea. What happens is you either get too much money coming in or you do not get enough money.

Our State fortunately does not have a dedicated gasoline tax. In many States, as you know, gasoline taxes are dedicated specifically for highways.

So therefore, you get a lot of money in the fund and start building highways all over the place because you have the money to do it, instead of using the money for other purposes.

So fortunately in our State, and this occurred long before I got there, the dedicated funds were eliminated. And if you come forward with a proposal like that, here is one individual who will not be very enthusiastic about it.

I am interested in the entitlement programs. Many people talk about the need to cut these programs. And that flies very well because, as I mentioned the other day when Senator Bentsen appeared before us, not many people know what an entitlement is, except when you describe that by entitlement programs we mean ones like Social Security.

Well, then that defines the problem. It certainly defines it for legislators.

Are you going to cut Medicare, for example?

Just to show you how the wind blows around here, everybody talks about doing something about the entitlement programs. And yet a new entitlement program was proposed just last year. In fact, making the Pell Grant program an entitlement was barely defeated here.

I do not remember the vote, but I will be willing to bet that a majority of the Democrats voted to make the Pell Grant program an entitlement. And that was defeated. I am sure, most of the Republicans voted against it. Of all times to embark on another entitlement, lovely though it might be, it is not the current time.

Just in passing, I think back in connection with what Senator Durenberger referred to, that being means testing. I believe in means testing, but at the same time, one of the most successful programs we ever had—it must have cost a lot of money, but I was a beneficiary, therefore I thought it was splendid—was the GI Bill implemented after World War II.

There was no means testing there. The only test was a relationship between how long you had served and how long you received your funding.

And it was phenomenally successful. I suppose if you duplicated it today, it would be fantastically expensive. I do not know.

Let me ask you this question. Do you believe that there is a direct correlation between the deficits and the difficult times our country is having now economically?

Mr. ALTMAN. Yes, I do. They are not the only factor. There are many factors, but they are on the list. And they are high on the list.

Senator CHAFEE. Do you believe that doing something vigorous on the deficit would be beneficial for the country?

Mr. ALTMAN. Yes, I do.

Senator CHAFEE. Now, what do you mean by "vigorous?"

Suppose we embark on a program. We are going to get rid of this deficit in 4 years. The deficit last year was \$290 billion. And for 1993 it is expected to be \$327 billion. So let's say we are running at \$310 billion a year.



Do you believe an effort to get rid of that high a deficit in 4 years would be good for the country economically?

Mr. ALTMAN. No. I think that is too fast. I think if you took that much out of our economy that fast, it would have a contractionary effect. And it would be a negative event. And perhaps a substantially negative event for our economy.

I think you have to aim at a longer period of time than that, for instance, twice as long.

Senator CHAFEE. Eight years?

Mr. ALTMAN. If you are talking about eliminating the deficit in its entirety.

Senator CHAFEE. Well, I do not want to get into the issue of whether Social Security should be included as part of the deficit calculation.

Mr. ALTMAN. I mean, remember now—

Senator MOYNIHAN. Why don't we ask Mr. Altman, do you mean 8 years to the point where the current operating budget is in balance or the budget plus the Social Security surplus?

Mr. ALTMAN. Well, I typically think of it on a unified basis.

Senator MOYNIHAN. So you would still, in fact, be using the Social Security trust funds.

Senator CHAFEE. Yes. I am just trying to compare apples to apples with the data we have.

So you think 8 years?

Mr. ALTMAN. Is one reasonable notion. I do not want to say it is perfect.

Senator CHAFEE. No. I am not saying it is perfect, but that is what you—in other words, you think 4 years would be too quick?

Mr. ALTMAN. Yes, I do.

Senator CHAFEE. Could you briefly explain what would be the downside of going too quickly?

Let's say we decided to eliminate the deficit in 4 years. How would that adversely affect the economy? There would have to be layoffs and cutbacks and reduced defense contracts and all of that?

Mr. ALTMAN. Well, if you take that much, in effect, stimulus out of the economy that fast, it will clearly be economically contractionary.

Some of it, one hopes, would be offset by monetary policy to cushion the impacts, but my own judgment is, since we are now looking at a \$384 billion fiscal 97 deficit, the latest figures from Mr. Darman, that to take \$384 billion worth of stimulus out of our economy over just a 4-year period would result in some of the negative impacts that you note, joblessness and slower growth.

Senator CHAFEE. So you would be reducing Federal expenditures by what percentage, about 18 or 20 percent?

Mr. ALTMAN. Well, that would depend on the mix of revenues and expenditures in your deficit reduction package.

Senator CHAFEE. Now, one of the pluses you get out of any success in reducing the deficit, it seems to me, would be a reduction in interest rates. Am I right or wrong?

Mr. ALTMAN. That should be the logical response.

Senator CHAFEE. And that would include long-term interest rates I would expect?

Mr. ALTMAN. Primarily, it would be on the long-term end, if not entirely.

Senator CHAFEE. Don't you think that a very serious effort in reducing the deficit would send all kinds of signals, not just to the money markets, but to individuals that this country is getting its act in order?

Mr. ALTMAN. Yes, I do. The notion of expectational economics was mentioned a moment ago. You have just seen some of that right now, right this minute in the sense that consumer confidence has clearly risen since the election. Retail sales are up.

Don't get me wrong. I do not think we are certainly in boom times, but there is some correlation in my view between the prospect of change and the advent of a new and energetic administration and consumer behavior.

It may be fragile. If we do not produce, it will not last, but I think there is some effect of that type that is going on right this minute.

Senator CHAFEE. I guess my time is up. Thank you.

Mr. ALTMAN. May I just clarify one point?

Senator MOYNIHAN. Please, Mr. Altman.

Mr. ALTMAN. I did not propose a dedicated tax. What I tried to say was that it might develop, that the fairest way and the most practical way of proposing and enacting a consumption tax would be to make clear to the American people in a rather ironclad way what the proceeds would be used for.

When we get to that point, how we get to that point, and what ultimately will be the judgment on that between the administration and the Congress is another matter.

Senator CHAFEE. Thank you.

Senator MOYNIHAN. Before Senator Durenberger leaves, can I just make the point that, note how the deficit sours everything, even after it seemed like a good time for awhile. You get a dollar's worth of government for 75 cents.

Pretty soon you are talking about paying for higher education by signing up for the Foreign Legion when you are over or owing your life to the company store forever.

The GI Bill was such a great thing. You did not even know what your tuition was. The college sent it to the VA. What did we get, \$80 a month, something like that? Plenty. And we came into our mid-twenties free. Free men and women did not owe anybody anything. It was great.

Senator CHAFEE. It was great. [Laughter.]

Senator MOYNIHAN. And the youth had the most freedom in their life.

Now, when they get out of college, they march off to some servitude for the Federal Government or else they sign on with the IRS for a lifetime of paying. That is a great life. You do not even get 3 years in which you have nothing to think about but ladies. [Laughter.]

That is true.

Senator PACKWOOD. I agree. I was just old enough to miss that.

Senator MOYNIHAN. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman.

I am going to put some charts up here that I want to go through. First of all, on the trade issue, if you look at our merchandise trade deficits since 1980, it is really an appalling history.

We have now exceeded an accumulative deficit in that area in our trade with the rest of the world in excess of \$1 trillion. And we are climbing all the time.

And other Nations, as you know, have very aggressive trade strategies where they both keep American goods out of their markets and do various things to penetrate our market.

And this is a very serious part of our economic problem I would assert. In other words, the depressed employment levels, the accumulation of the problems in the fiscal deficit are in part related to this problem.

If I can have the chart on Japan. If you look at the bilateral trade numbers with Japan, they are really very stunning. Starting in 1980, they had a \$12 billion surplus in their favor.

And you can see that by 1987, they had gotten up to virtually \$60 billion in their favor in a given year. That meant that every month they were taking \$5 billion net out of our economy.

It has come down some, but not very much. In fact, this final figure for 1994, I think, will be higher than the \$44 billion shown here. In any event, it will be higher than it was the previous year.

Senator MOYNIHAN. It is raising again?

Senator RIEGLE. It is raising again. And this is, of course, after the celebrated trip that President Bush took over there to try to get some improvement. In fact, things have worsened since that time.

If you look at this total just since 1981, one country, Japan, they have had a net balance of trade in their favor of over \$0.5 trillion.

I would submit to you that has done a lot of damage to our economy. I can see it in the industrial base part of the country where I come from, but I see it all across the country. I see it. It is affecting all 50 States in various ways.

We have huge problems in this area, unless we confront them directly in terms of getting a trading relationship established with Japan where we get to a rough balance of trade.

I have suggested that we set as a goal for ourselves in our discussions with them getting to a rough balance of trade over roughly a 5-year period of time because that allows for an adjustment process.

It brings us down, say, to 20 percent a year over 5 years. But right now, we are going in the wrong direction.

Let me add one more chart here. In addition now to Japan, here comes communist China, if you will, not a very appetizing regime in terms of how they treat their own people or some of the things they have going on with weapon proliferations and so forth.

If you look at the pattern of the increase in trade deficits with Mainland China just since 1985, it has been an extraordinary change.

This figure that is on this chart, showing an estimated \$14 billion plus for 1992, will actually be higher than that. It looks like it is going to exceed \$15 billion.

They now have the second largest deficit of any country with us in terms of the deficit we have with them of a surplus in their favor, after Japan, rising very sharply.



The Treasury Department in this instance made an official finding of currency manipulation by the Chinese Government to make these numbers and, in effect, take jobs out of America and take the jobs to Mainland China.

And I could go on into other countries, but with those two as sort of background in the overall merchandise trade deficit, will we have in the Treasury Department a much tougher and more direct strategy to challenge clear-cut patterns of trade cheating, deliberately closed markets in foreign countries, enormous and, I think, unjustified bilateral surpluses, such as we see with an industrialized country like Japan running over a long period of years?

Will we see a change in direction and an aggressive strategy to deal with this problem because it is having negative economic implications here in our country?

Mr. ALTMAN. Well, Senator, there are a lot of reasons, of course, why our overall trade account has worsened during the past 12 years and why our bilateral accounts that you have mentioned have also moved in the direction they have.

And one has to keep in mind that trade deficits per se are not always bad. The magnitude of the deficits we have had has been very damaging.

Right now, one of the reasons our trade deficit is rising is because our economy is stronger than the Japanese economy. So our demand for their goods is greater than their demand right now for our goods at the margin.

That reason, just separated from all the others, is obviously not a bad reason. On the other hand, we have pursued a series of policies during the 1980's which made this much worse.

One of them, of course, was the fiscal policy we pursued as a Nation which gave rise to the superheated dollar which during the mid-1980's made our Nation uncompetitive, that whole sectors of our industrial base were wiped out.

Senator MOYNIHAN. May I just interject to say that at that time, there was a Secretary of Treasury who really thought it was wonderful when he heard that the dollar had strengthened again, a strong dollar, a strong America. I got a little bit mixed up there.

Mr. ALTMAN. That was a very damaging mix-up. We have not fully recovered from that period.

Now, as to trade policy, the President-elect spoke during the campaign, of course, about doing better at that and being tougher about it, discussions about an enhanced Super 301 and putting economic matters closer to the center of overall foreign policy and things like that.

And I am hopeful that we are entering a new era in this respect, somewhat as follows. It was not very long ago.

I mean, it was just a matter of 3 or 4 years when the main topic of discussion, I believe, between the U.S. President and the Japanese Prime Minister was defense issues—Japan has an unsinkable battleship—and the defense of the Pacific sea lanes and matters like that.

I am not trying to denigrate those issues, but I thought at the time and I believe that those were the wrong priorities. The heart of our relationship with Japan is economics.



Senator RIEGLE. But doesn't it have to work on a reciprocal basis? In other words, if we are going to be left with nearly a \$50 billion a year trade deficit in their favor after all of these years of an opportunity to get to some kind of an equilibrium in our trading patterns back and forth, this is sucking capital and jobs out of this country at a rate that we cannot afford.

I mean, we are at a point right now—just to show you another chart. Look at this. I know President-elect Clinton is aware of this—I have discussed this with him. And he has used this chart probably in meetings that you have been involved in.

Take the recession that we have been in, certainly the jobs recession part of it continues to this day. And you take it from the beginning of the recession out through time as we came down. Lost jobs. This is a zero line on jobs. And so this shows job losses.

The recession was going out 10, 12, 14 months down to the bottom of this curve of job losses. And here is where we are at the present time.

If you take the last seven recessions on average, the pattern looks like this. It is the dotted line. We came down almost exactly the same, the trough of the recession, but then, we come out of it.

We regained all the jobs we lost. We get into positive ground. And if we were following the old patterns, we would be up here right now. Instead, we are down here.

Now, you folks are coming to town and thankfully so, but this is what you are picking up right here. This is what is being handed on to you when we should, in fact, be up here.

Now, I am not saying trade is all of this story. It is not. It is only a part, but it is a significant part because you cannot, in fact, drive this line back up to anything like what we have seen in the past and start to recover the lost jobs, get all those back and start adding jobs unless we confront every single job losing part of the economic picture that we have at the present time.

And in the trade area, the trade area is an enormous job loser. And it is not just jobs at random.

I want to just put one other chart up here, if I may. If you look at the pattern of manufacturing jobs, manufacturing jobs tend to be higher value added, higher wage jobs, not in each and every case, but generally speaking.

If you look at an analysis of how we are doing in terms of the percentage of manufacturing jobs in our economy versus Japan or Germany on a time series going back to 1967, you will notice up here, Germany is the red line. They started out just above 35 percent. And they have managed now over these decades to pretty much hold that.

Now, that is to say they are not without their problems, but they have worked very hard with their national economic strategies to keep that percentage high. And it has been wonderfully beneficial to their economy.

Japan is the green line. You see, they started out in 1967 below us, moved above us. And they have managed also to hold their percentage at quite a steady level.

The only one that is really drifting down into an alarmingly low level is the United States. We are now down to 1990 to about 17 percent. And we are dropping.

Now, some people say, "Well, don't worry about this. We will just take everybody into the service sector." And maybe they are in front of a computer screen or maybe they are working at McDonald's or maybe they are giving pedicures or back rubs or whatever they are giving in the service economy. And that is how we are going to make our living. It does not add up.

And one of the reasons we have this huge structural deficit is not just the chicanery of David Stockman and others, which you elaborated on so well yesterday, but it is the fact that we have not paid attention to the guts of our economy. We have not invested properly in skills or capital investment.

Multinational corporations in this country today fly the flag of no Nation. They do not fly the American flag in the sense of having as a top-stated priority keeping jobs in America. They are quite ready to move the jobs to Mexico or Japan or to Timbuktu, out of this country.

And we do not have a strategy right now as a country. In fact, I would assert that during the Reagan-Bush years, we have had an anti-strategy. We have had a strategy not to have a strategy and to sort of let nature take its course.

And nature is taking its course. And now, we have these massive structural deficits. We have a declining job base. We have huge trade deficits getting worse now again, not better, and no answers. I mean, I say no answers up until the present time.

I was stressing before the urgency of the economic plan. This economic plan that we are going to have to get here very, very quickly is not only going to have to be timely, but it has to be big enough and broad enough and deep enough to hit right into the center of these problems.

And if it does not, then, what is going to happen is you are going to have a massive deflation of expectations out there.

Leave aside the bond traders for the moment. I mean, they have their orientation and the game they play. But quite apart from them, if you are talking about rank and file citizens in this country who vote for a President, they want to see these trend lines change. They just voted to change these trend lines.

If these trend lines do not change, then the opportunity that exists now to do something about it will be very fleeting because that it is what people voted for is a change in these trend lines.

So can you tell me how we might go about in terms of the discussions—I know we do not have a final plan yet, but how are we going to get into the guts of this problem and start turning these lines around, start bringing this jobs back?

I mean, we are into January. And if we have to get 165,000 net jobs per month if we are going to hit the 8 million job goal over 4 years, I mean, we are already nearly half way through the month of January and we are treading water.

Now, that is not your fault. You have not been in charge of policy, but very shortly will be. And so inheriting this situation, how do we drive these lines up in an aggressive way?

Mr. ALTMAN. Well, first of all, I think there is a sense among the Clinton advisors and with the President-elect himself that, yes, we must be bold and that, yes, we must act immediately.

I think everyone appreciates the windows of opportunity for real change do not come along that often. And this is one of them.

The second point I would like to make is that at least speaking for myself, I do not think the destiny of our country is the declining manufacturing base. There is nothing we can do about it. And that is just our fate.

Our economy over many decades has shown a remarkable ability to reinvent itself and to adapt as the American people do. And I do not see any reason why reversing that trend on manufacturing employment as a percentage of the total is impossible.

Third, we have been under-investing. And that is a big reason for this. We all know the numbers, but during the 30 years after the war, the second world war, we invested on a net private basis at about 8 percent of our gross domestic product. And recently, we have been investing at about 3.5 percent.

Senator RIEGLE. Where is the extra money going, I mean, for those that have it? For those that have money that might be saved, coming down the income scale from top on down, what theory do you subscribe to as to where that forgone investment money has ended up?

Mr. ALTMAN. Well, there is no single answer to that, but a big and obvious consumer of that money has been the Federal Government.

Chairman Moynihan referred earlier to how often we have been saying the same thing and doing the opposite.

Well, when I was here last under President Carter, I think the last budget President Carter submitted called for a \$45 billion deficit which at that time would have represented something like 1 percent of our GDP.

So things have really changed in terms of the Federal impact on these matters. And had we pursued a more rational fiscal policy during these intervening years, some of those curves, some of those trends would be a lot less unfavorable than they are. That is not the only reason.

Senator RIEGLE. But let me ask you this. I mean, part of the argument on supply side economics was that if we had the big tax cuts, individual tax cuts and we put the money out there that it would, in fact, be invested. People would then go out and create new business situations that create jobs because the marginal tax rate was much lower and so forth. And we would get these multi-million flowers blooming in terms of economic activity. It did not happen. I mean, not as advertised.

Where did that money go, if it did not go into that? I am talking about the folks who really got the additional discretionary capital.

If it did not go into building bigger and stronger economic bases in this country, did it go for consumption? I mean, did it go for yachts? I mean, where did the money end up going?

Mr. ALTMAN. Well, clearly a lot of it went into consumption. We have also passed through a period of great financial speculation which siphoned off a lot of that money.

And I think the most basic premise of supply side economics was wrong. It was evidently wrong at the time. It is wrong in retrospect.



Senator MOYNIHAN. And the people who put that 1981 tax cut in place had already decided it was wrong. Is that not correct, sir?

Mr. ALTMAN. That would be my reading of the history.

Senator MOYNIHAN. Is that not their testimony?

Mr. ALTMAN. That would be my reading of it.

Senator MOYNIHAN. And did not the current Director of the Office of Management and Budget say, "Win it first and fix it later?" Is that not in writing in Mr. Stockman's—

Mr. ALTMAN. I think that was in the White House parking lot on the way over to—

Senator RIEGLE. Unfortunately, it is. You are quite correct. It is there, but we did not get that admission until the damage was done and the book was available at retail at \$25 a copy or some such. So it was a little late.

I mean, the confession came a little late in terms of being able to head off some of the problems.

I might say, there is an interesting hearing record in the Budget Committee back when Stockman was running the show confronting those very issues at the time when the testimony was given is starkly at odds with the testimony that appears in the book.

If I may just raise one other issue along these lines?

Senator MOYNIHAN. I just intervened to agree with him.

Senator RIEGLE. I want to share with you and have you take with you today a couple of recent news stories that sort of bring all of this down out of the level of microeconomics and the national economic trend lines down to what is going on in people's lives.

And Michigan has been a very active and important economic State, as has the State of New York. And we are having all sorts of plant closings, not just big plant closings, many of those, but smaller plant closings.

You just had one with Smith Corona in upstate New York, the state-of-the-art typewriter maker in America, the last American firm shutting down a factory, moving it down to Mexico because they cannot confront unfair trading practices effectively coming from the Japanese in the American market other than to go to Mexico and take advantage of low cost labor availability. It is a very distressing story. We have comparable stories in Michigan.

The two I want to draw to your attention and give you today to take with you because this is what it really all comes down to, one is the story in the Grand Rapids press that ran on November 23 of this last year. It says, "Hard times. Growing poverty is especially grim in rural Michigan."

Now, we think of Detroit as an auto center, an urban center with particular kinds of problems. This is a feature story that talks about how families are being ground down in the outlying areas of my State because of the disappearance of smaller companies, smaller manufacturing companies connected to this manufacturing trade issue, but also other types of companies, and no replacement work.

In other words, people who have well established work skills, a desire to work, a need to work cannot find work. I mean, there are literally not enough jobs for people to find to do.

And it is becoming increasingly desperate. And, of course, it is winter out there. It is a lot colder there than it is here.



And I am going to give this to you to read and consider.

Senator MOYNIHAN. Why don't we place it in the record as well?

Senator RIEGLE. If I may. I appreciate that.

[The information submitted by Senator Riegle appears in the appendix.]

Senator RIEGLE. And the second one is along the same line. There is an older manufacturing town called Bay City, Michigan, north of Flint, where I grew up. And this is a story that also ran in November.

And, Mr. Chairman, this community around the Christmas period has a volunteer program where they ask people to turn in old or used children's coats that can be recycled and given to poorer children who need warm winter coats and where their families cannot afford them. They have had this program as a public charitable effort go on for many years.

And the headline on this story this November was, "500 Needy Infants and Children May Go Without Winter Coats."

And the substance of the story goes on to say that even though a lot of coats had been donated, the number of people showing up, even destitute families with little infant children in their arms who did not have the money to buy warm winter clothing and were coming to get one of these donated used coats, that even after all of those had been turned and recycled, they were still 500 coats short.

Now, this is just one community in northern Michigan. A lot of people got involved in this effort to make sure that that need was met. This is not an uncommon problem.

I mean, this kind of problem is going on in its own way in North Dakota. It is going on in northern New York. It is going on in the inner City of New York, as it is in the inner cities of Michigan and across the country.

We do not have any more time to waste. And we do not have any more people to waste in terms of the material, physical, grinding hardship that is going on right now in the lives of people who are desperate for work, who have the skills to work, who have family members to feed.

And there are not enough jobs to go around. And we need 8 million jobs. We need 2 million of them this year. We need to start right now.

We have to confront the trade cheating. We have to confront every other part of this problem to start getting this net job yield coming onstream.

And I know the new President said he is going to focus on this like a laser. And I believe that. He means that. He meant it when he said it. He means it today.

What I am saying to you is time is running out where I come from. And we do not have any extra time. We are 12 years late now in responding to this problem.

And so I just want to leave you with the keenest sense of urgency that I am able to put into words about the fact that we have to have a plan. We have to have it right away.

When I said a few weeks, I think every day that we wait costs us something here in terms of momentum. And I do not say, have

it here tomorrow morning, but I think it is going to have to be here very shortly after the new President takes office.

And if it is not this kind of a plan, sized to this scale of a problem, it is not going to make much difference. It has to be a big plan, scaled to a big problem because that is what we are facing.

And I want to help you get it done. I will move heaven and earth here in this committee and up in the Banking Committee where I am chairman to see that the parts of the plan that fall within these jurisdictions get addressed and that we move them along. And I am sure this chairman has said as much yesterday and today.

But we do not have any more time to wait. So I would just ask you to get the fires burning at the highest temperature that you can because people need help.

Mr. ALTMAN. Well, if I may say, I just agree with what you have said. We all look at these astonishing and really quite totally unacceptable developments in our country relative to the percentage of our population in poverty, relative to infant mortality, relative to all these indices of grinding down that you point out.

It is just abominable that a country of our wealth and a country of our traditions is letting this happen. And I think the one key to beginning to provide those jobs, of course, is growth.

At 2.5 percent real growth or less roughly speaking, we are not creating any new jobs.

Senator RIEGLE. You are exactly right.

Mr. ALTMAN. So we have to start off by getting the growth rate up. And that will be the main thrust of the proposal that is put forth soon after Inauguration Day.

Senator RIEGLE. Well, I am glad to hear you say that because if we are going to tilt toward strategies that reduce the growth rate, we are going to be locked in this box. And we are not going to get out.

And I would hope that we would not be seduced by the arguments of some on the other side who came down through the campaign with their debates and so forth saying, there either was not a very big problem or if there was, we could not afford to do much about it.

I think that point of view got lost in the campaign. And the point of view that prevailed was one that said, yes, there is a big problem and it is time to do something about it and something that will get that growth rate up. And the growth rate has to be driven up.

Finally, just this, the chairman of IT&T appeared before the Senate Banking Committee not long ago in a panel.

We were talking about American competitiveness and how do we get the growth rate up. And he said something in the course of his remarks that was almost like hearing a new language, as if he had come from another planet. He said he thought it was now an obligation of American business firms to create jobs in America.

Now, the natural working of the economic system does not necessarily bring about that result, but he asserted that that should become a stated goal of American companies and that, in fact, binational companies ought not just to fly the flag of no country, but they ought to recognize that there is now a need and an obligation to undertake as part of a corporate strategy to create more jobs in this country. And I quite agree with that.

Now, that challenges some of our longstanding economic theories. And it requires us to live in the world today as it exists in terms of other countries putting such great emphasis on economic strategy and job creation for their own people.

And I would urge you to think about that. And I would argue with the counsels of this new government in our contact with the private sector that it is time for American companies to understand that there is some obligation here in their own self-interest and our National self-interest to put specific emphasis on creating jobs in this country and not to be so single minded on driving for other objectives that jobs are done away with here and shipped somewhere else in a way that in a sense makes it impossible to meet the kind of job growth and economic growth figures as you acknowledge here yourself today that we critically need.

And so I would ask you to take that thought away with you today and see if we cannot help encourage the private sector to lift the role of job creation in this country to a much higher plane than it appears to me that it is at the moment or has been for the last few years.

Mr. ALTMAN. Hopefully, I have one or two credentials in that area because I spent a lot of my time during the 1980's talking to businesses in New York City about the importance of remaining there and the importance of a viewpoint beyond just the bottom line.

And, of course, one in some of them we lost, but I believe very much in that effort. And I think Mr. Arisog's statement is a very welcome one.

Senator RIEGLE. Thank you.

Senator MOYNIHAN. Thank you.

Senator RIEGLE. Thank you, Mr. Chairman.

Senator MOYNIHAN. Well, we come to an end of an absorbing morning for this Senator at least.

And we want to thank you, sir.

And I would like to sum up just a few thoughts that I have. I have not had a question period. I am not going to use one, but I will say that I hope you take back to the counsels of the Clinton administration a sensibility about the Finance Committee here, which I was trying to reflect in my occasional interventions that said, yes, we have heard that before. Oh, yes, we have heard that before.

We have had 12 years now. We are into our twelfth year of pronouncements about what we are going to do about the deficit, about regulation, about trade. And they do not happen.

There is a degradation of process here. I would say to you, sir, when Governor Clinton in the campaign said he would cut the deficit in half in his first 4 years in office, I said to myself, no, he won't. And we now agree, he won't.

When he said, "I am going to send an \$80 billion 4-year stimulus program through," I said, no, you won't. And now we learn, he won't.

And why is this? Because the basic concept of using a deficit as a device for paralyzing this government has worked.

Then the beginning. You know what I am talking about, starve the beast, but, of course, the beast grew in other ways.



And in 1997, if it is not the case in 1997, the debt begins to compound as a proportion of GNP. Isn't that about the time CBO projects?

Mr. ALTMAN. Well, the debt to GDP ratio is rising as we sit here.

Senator MOYNIHAN. I am sorry. The deficit as a portion of the budget begins to—

Mr. ALTMAN. Reverses course and goes up again?

Senator MOYNIHAN. Yes.

Mr. ALTMAN. That is true.

Senator MOYNIHAN. And then the next thing, you monetize the debt by watching the currency, to use Lenin's phrase. And you come out of that cycle. And the next thing you know, the dollar is not the unit of international value.

The point is that we have known this. And I hope you would take back to the counsels of government the fact that, are you going to say something we have heard before and heard repeatedly and never seen, the wish and the act as a shadow that falls?

In 1983, I wrote a long piece in the New Republic saying, "My God. We are going to be in awful trouble." It was so clear.

And I will read just one passage, "What is to be done? The economy is at stake. The country can bankrupt itself." This is from your New York Democrat. I thought that in 1983.

On July 27, 1981, that year, President Reagan had begun the pleasant practice of speaking on the radio to the Nation at noonday on Saturday. And we would be asked to respond.

The Majority Leader, Robert C. Byrd, would ask Senator Riegle or whoever if the topic looked like something he was interested in. And I was asked. In this case, I was asked.

I said this about the tax cut, the great tax cut as it was developing because we had to have a tax cut. The inflation of the late 1970's had just gobbled up so much income by bracket creep.

I said, "In the last few days, something like an auction of the Treasury has been going on. What this is doing is taking a tax cut that we can afford and transforming it into a great barbecue that we cannot afford."

I would say to the President that victories come too dear. And it seemed to me, 2 years later that, yes, that had happened. And it was getting to be irreversible.

Rudolph Penner, a very distinguished economist, was at this time head of the Congressional Budget Office. He was appointed by Mr. Howard Baker. He estimated that between 1984 and 1989, the accumulated deficit would come to approximately \$1.3 billion. And it was beyond that by 1989. It was now four. And we are going to raise it again.

To the degree there is a crisis, it is in my view a crisis in which people do not perceive their inability to do anything about it, the fact that in reality, nothing happens.

And that same council's economic advisors report is made. And, "We are going to deregulate. And we are going to do this." You do not. "We are going to get the deficit down." You do not.

Now, these are patterns. They are called denials in some settings.

I would hope, sir, you would take back to the counsels of this new and hopeful administration our genuine wish that we break



out of this pattern of denial and you bring forward some of the proposals that you have heard from the Senators on both sides.

We are ready. And you are able. The question is, will you seize this day, *carpe diem*?

Mr. Altman, would you like to say anything? The gentleman in the dock may make one last statement before he is sent on and he does not see his wife again.

Mr. ALTMAN. Actually, *carpe diem* is one of her favorite phrases.

I do not want to respond, Senator, in an overly technical way, but I would like to make two, call them quasi-predictions. Governor Clinton said during the campaign that he wanted to cut the deficit in half.

And while we are now engaged in a furious debate over what deficit he was talking about, it has always been my impression that he was talking about the deficit that was then on the table, which was about \$299 billion, as someone said before.

Senator MOYNIHAN. May I just interject? I have heard from this side of the aisle, but surely he knew that we were lying.

Mr. ALTMAN. Well, how about this, I was one of many advisors, but I did not know precisely that you were lying. No.

But in any event, to do that, you have to cut something like \$150 billion. And I believe that the proposal that he puts forth shortly will involve a deficit cut in that range.

Second, he talked about \$220 billion of new investments over 4 years. He referred to that. And I believe that his proposal in regard to investments will be in that range.

And so while there is a great deal of speculation, I note, over possible backtracking, I do not think in those two areas we are going to see any, at least in terms of the proposals that come forth.

Senator MOYNIHAN. And this committee will get from you a proposal to end welfare as we know it. Two years after which, there will be employment of one form or another. And that will require, we estimate, about 1.5 million public service jobs. And then there is health care.

There is a big opportunity to do large things, but I think I do not have to tell you that they will require difficult choices. And you have a right to submit them to us. If you do not, they will not be made.

And thank you very much, sir.

Mr. ALTMAN. Thank you, Mr. Chairman.

Senator MOYNIHAN. May I just say in closing that there will not be a vote today. The Senators were not available in a quorum, but we will vote on January 19. There will be a vote on January 19.

And I confidently predict that it will be a unanimous vote in your favor. And I wish you great luck, sir. And again, *carpe diem*.

Mr. ALTMAN. Thank you, Senator.

[Whereupon, the hearing was concluded at 12:47 p.m.]



# APPENDIX

## ADDITIONAL MATERIAL SUBMITTED

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### PREPARED STATEMENT OF ROGER C. ALTMAN

I have been deeply honored by my designation by the President-elect as Deputy Secretary of the Treasury. If I am confirmed, it will be a privilege to serve under him. I will devote all my energies to fulfilling his missions.

It is a special pleasure to appear before this Committee. I have had the privilege of knowing its incoming Chairman for many years and count myself among his admirers. My thanks also to Senator Bradley, a good friend, for his kind words. And thanks to Senator D'Amato for supporting my nomination and to Senator Packwood for the opportunity to appear before the Committee.

I'd also like to thank the members of this Committee who generously took the time to meet with me before this hearing. I believe that I had the chance to speak with or see almost all the members. And, I've listened carefully to your views, and pledge to take them with the utmost seriousness. I believe that under Senator Bentsen's leadership, we'll see a period of unusual cooperation between this Committee and the Treasury.

Before going further, I'd like to introduce my wife, Jurate Kazickas, who's here with me today. She's a documentary filmmaker. She was also a former journalist in Washington and she's promised to keep me out of trouble with the fourth estate here.

Let me say also how much I look forward to the opportunity to serve again. I've always valued public service; it's taken up a fair amount of my adult life, both at the federal and at the state and local levels in New York. If I'm confirmed, this will be, in effect, my fourth tour of duty. It is a wonderful part of our American system that there are such periodic opportunities to serve.

I'd also like to stress how much I look forward to working with Senator Bentsen. He will be a strong and effective Secretary of the Treasury. My impression is that he guided this Committee with great skill in recent years and those same skills will be applied to the Treasury. In my view, the results will quickly be evident.

The economic challenges we face are truly daunting. Too many Americans are experiencing flat or declining standards of living. That's why they're uneasy over their economic security and that's why we must change course. The number one task is to increase their real incomes by raising our levels of investment in training, education, private equipment, infrastructure and the like.

Accomplishing this will involve very tough choices for the President-elect and for this new Congress. We can begin to invest again, and create high wage jobs, if we are courageous together. I believe that the President-elect will provide the type of economic vision and leadership we have been lacking so that, working with all of you, these goals can be reached.

Thank you.

### OFFICE OF THE PRESIDENT-ELECT AND VICE PRESIDENT-ELECT

#### BIOGRAPHY OF ROGER C. ALTMAN

Roger C. Altman has been a financial leader in the private and public sectors for the past three decades. As the youngest person to be named partner at Lehman Brothers in the firm's post World War II history, as Assistant Secretary of the Treasury for Domestic Finance from 1977-1980, and most recently as Vice Chairman for The Blackstone Group, Altman has consistently displayed economic expertise and outstanding management skills.

Altman's career has been marked by excellence at every step. As Assistant Secretary of the Treasury, Altman successfully put together and managed the refinancing of Chrysler and the bailout of New York City. Two years before accepting his post with the Carter Administration, *Institutional Investor* named Altman one of 10 outstanding U.S. investment bankers under the age of 40.

Altman has used his knowledge and considerable expertise to give generously to the community, working with those less fortunate than himself and later sharing his understanding of public service as a Donald C. Dayton Distinguished Faculty Fellow at the Yale School of Organization and Management during the 1985/86 academic year.

Since organizing NYC's financial rescue in the 1970's, Altman has remained very active in the affairs of the city. From 1985 through 1989, he served as non-executive Chairman of the Public Development Corporation of New York, the primary economic development agency for the city. In 1990, Mr. Altman began his service as co-chairman of the Mayor's Management Advisory Task Force, a group made-up of chief executives, city labor leaders and the four senior NYC officials to assist in "downsizing" of government. As part of an overall effort to avert another NYC financial crisis, the task force has worked to improve the city's efficiency in providing necessary services for its residents.

Mr. Altman—has a wide—range of professional interests. He is a Director of the Children's Television Workshop, Inc., the Johns Hopkins School for Advanced International Studies, the Franklin D. Roosevelt Library and the Citizens Budget Commission. He is also a member of the Council on Foreign Relations and is Chairman of the Cities in School Program for New York City.

Born in 1945, Mr. Altman was raised in Boston. His father died when he was 10, and his mother taught him the value of education and hard work, supporting the family as a librarian. Mr. Altman earned a B.A. from Georgetown University and received an M.B.A. from the University of Chicago. He lives in Manhattan with his wife Jurate Kazickas, a documentary filmmaker, and their three young children.

ROGER C. ALTMAN

### *Investment Banking*

Roger C. Altman is Vice Chairman of the Blackstone Group, a private merchant banking firm. He is the partner responsible for the Firm's worldwide mergers and acquisition business.

Founded in 1985 by former senior partners of Lehman Brothers, Blackstone generally is regarded as one of the most successful investment banking "boutiques." The firm operates in three businesses:

- *International mergers and acquisitions*—where Blackstone has, inter alia, completed four of the six largest Japan/U.S. mergers.
- *Principal investing*—the Firm manages an \$850 million fund for leveraged acquisitions and related investment to date. Blackstone has completed seven acquisitions for the fund, ranging in size from \$350 to \$2.8 billion.
- *Investment management*—Blackstone currently manages \$9.5 billion on a fixed income basis for public and private investors.

Prior to joining Blackstone, Mr. Altman had been a Managing Director of Lehman Brothers. At the time of the mid-1984 sale of Lehman, Mr. Altman was a member of its seven-man Management Committee and of its Board of Directors. He also was one of the three managing directors responsible for the Firm's investment banking activities.

Mr. Altman joined Lehman Brothers in 1969 as an associate. He became a general partner in 1974, the youngest to achieve that position in the Firm's post World War II history. That same year, *International Investor* named him one of the 10 outstanding U.S. investment bankers under 40 years of age.

### *Public and Academic Service*

In January 1977, he was appointed Assistant Secretary of the Treasury for Domestic Finance by President Carter, and confirmed by the Senate. Mr. Altman served in that capacity for the duration of the Carter Administration. During those years, he was responsible for:

- (1) federal finance, including the Treasury's borrowing programs;
- (2) corporate finance, particularly the Chrysler financing program;
- (3) municipal finance, including the New York City rescue, and
- (4) financial institutions policy, mainly two major banking deregulation statutes.



Mr. Altman also served as non-executive Chairman of the *Public Development Corporation of New York* from 1985 through 1989. This is the primary economic development agency for New York City.

During the 1985/86 academic year, he also served on a part-time basis as a Donald C. Dayton Distinguished Faculty Fellow at the *Yale School of Organization and Management*. He taught an original course, entitled "Washington as a financier," to second year graduate students.

Since 1990, Mr. Altman has been serving as co-chairman of the Mayor's Management Advisory Task Force. This group consists of several chief executives, the municipal labor leaders, and the four senior City officials. Its mission is to assist in the "downsizing" of City government.

#### *Affiliations*

Mr. Altman is a Director of the Children's Television Workshop, Inc., the Johns Hopkins School of Advanced International Studies, the Franklin D. Roosevelt Library and the Citizens Budget Commission. He also is a member of the Council on Foreign Relations and is Chairman of the Cities in Schools Program for New York City.

He is published regularly in *The New York Times*, *The Wall Street Journal* and other publications.

Mr. Altman received a B.A. from Georgetown University (1967) and an M.B.A. from the University of Chicago (1969).

Mr. Altman was born April 2, 1946 in Boston, Massachusetts. he lives in Manhattan with his wife Jurate Kazickas, a documentary filmmaker, and their three young children.



United States

**Office of Government Ethics**

Suite 500, 1201 New York Avenue, NW

Washington, D.C. 20005-3917

January 12, 1993

The Honorable Daniel P. Moynihan  
Committee on Finance  
United States Senate  
Washington, DC 20510-6200

Dear Senator Moynihan:

In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by Mr. Roger C. Altman. President-elect Clinton has announced his intent to nominate Mr. Altman for the position of Deputy Secretary of the Treasury.

We have reviewed the report and have also obtained advice from the Department of Treasury concerning any possible conflict in light of its functions and the nominee's proposed duties. Also enclosed is a letter from the ethics official of the agency, dated January 11, 1993, which discusses Mr. Altman's ethics agreements with respect to recusals, resignations and certain other matters.

Based thereon, we believe that Mr. Altman is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

Stephen D. Potts  
Director

## RESPONSES OF MR. ALTMAN TO QUESTIONS SUBMITTED BY SENATOR RIEGLE

*Question No. 1.* The Reagan and Bush Administrations supported comprehensive financial services reform including breaking down the historical barriers between banking and commerce. What is your view on continuing the historical separation between commerce and banking?

*Answer.* Numerous arguments have been raised about whether commercial firms should be freely permitted to own federally-insured banks. Some argue that with the increasing integration of our financial markets and the already existing relationship between many commercial firms and banks or thrifts, that the laws should be changed to better reflect and regulate what has become, in many instances, a de facto mixing of banking and commerce. Others argue that the historical reasons for the separation and the need to wall off insured deposits necessitates greater vigilance in regulating the current so-called non-bank banks and in establishing higher walls between banking and very carefully before initiating any policy discussions regarding these complex matters.

*Question No. 2.* President-Elect Clinton had advocated creating a national network of community development banks as part of his national urban strategy. He has said that he would like to create 100 development banks over an unspecified period.

—Do you have any views on what the President's community development bank proposal should look like?

*Answer.* During his campaign and in *Putting People First*, President-elect Clinton spoke out in favor of a plan to create a "nationwide network of community development banks to provide small loans to low-income business and entrepreneurs in the inner cities. These banks will also invest in affordable housing and help mobilize private lenders." The Clinton Administration remains committed to that objective. The details of the program itself are being worked on. The plan will be flexible enough to incorporate a wide variety of activities currently underway in communities throughout the country and will allow us to build on a number of the successes we have already seen in the marketplace. The Administration looks forward to working closely with the Senate Banking Committee on this proposal.

*Question No. 3.* Under last year's Defense Production Act, the President is required to report on foreign takeovers of U.S. companies involved in the research, development or production of critical technologies; that report is due in October, 1993 and I would anticipate that the President will designate Treasury to be either the lead player or a major participant in its preparation.

—Are you at all concerned about such foreign takeover of U.S. companies?

*Answer.* We must carefully examine foreign acquisitions to ensure that U.S. national security interests are not threatened. Sales of companies which produce critical technologies should be subject to close scrutiny. At the same time, many foreign investments will have the desirable effect of creating additional jobs or protecting existing jobs in this country. We should look favorably on those investments which can provide high-paying jobs for Americans or which improve the capital and technology available to American workers, while not threatening national security. I look forward to working with members of Congress on these important issues.

## RESPONSES OF MR. ALTMAN TO QUESTIONS SUBMITTED BY SENATOR GRASSLEY

*Question No. 1.* During the last session of Congress, there was a proposal to merge the Office of Thrift Supervision (OTS) with the Office of the Comptroller of the Currency (OCC), remove the new entity from Treasury's supervision, and make the new entity an independent agency. What are your views on this proposal and what would be your recommendation to the new Administration?

*Answer.* Certainly we are well aware of the views held by many that the overlap of regulatory authority and the potentially duplicative nature of examinations conducted by the various bank and thrift regulators may result in inefficiencies, confusion and reduced regulatory effectiveness. We are currently studying a variety of proposals related to the streamlining of our bank and thrift regulatory agencies. Any decision regarding potential merger of any of the agencies will depend on what is best for the safety, soundness and fair examination of the institutions regulated by those agencies.

*Question No. 2.* Turmoil was created by a 1992 U.S. Court of Appeals for the District of Columbia decision in *Independent Insurance Agents of American v. Clarke, Comptroller of the Currency and U.S. National Bank of Oregon*. The court ruled that a drafting error in a 1989 revision of the 1916 law eliminated the insurance provisions from the U.S. code that allowed national banks located in towns with populations of 5,000 or fewer people to offer insurance. There is a conflict among the cir-

cuit courts on this issue so the Supreme Court has agreed to review it. The issue is crucial because banks in 37 states would be affected by an adverse ruling.

—Should banks be involved in insurance? If so, to what extent? What should the role of the government be in addressing this concern?

*Answer.* The whole issue of what products and services banks should be permitted to offer is a complex one that has received considerable attention, both in the Congress and in the courts, over the past decade. The issue of bank involvement in either the sale or the underwriting of insurance is made even more complicated by the general proposition that insurance is an industry and a product that is largely regulated and controlled by the individual states. We are certainly well aware of the serious issues and concerns raised by the U.S. Court of Appeals decision. The Clinton Administration is currently examining a variety of issues related to banks, bank regulatory issues and the ideas surrounding the question of what activities are appropriate for banks. Certainly, the issue of what the proper role is for banks to play with respect to either the sale or the underwriting of insurance will be included within the framework of those discussions.

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#### PREPARED STATEMENT OF SENATOR ALFONSE M. D'AMATO

Mr. Chairman, this morning I am pleased to introduce to this distinguished committee President-elect Clinton's nominee for Deputy Secretary of Treasury.

Roger Altman's strengths come not just from the fact that he lives in my home state of New York, but that he has served New York City with distinction.

Mr. Altman has been co-chairman of Mayor Dinkin's Management Advisory Task Force since 1990, working towards the laudable goal of downsizing the New York City government. From 1985 to 1989, Mr. Altman served as Chairman of the agency charged with economic development in New York City—the Public Development Corporation of New York.

Even while he was Assistant Secretary of Treasury for Domestic Finance during the Carter Administration, Mr. Altman continued to serve New York. Responsible for municipal finance, he worked on the "New York City rescue" when the city defaulted on its bonds.

Mr. Altman has been vice chairman of the Blackstone Group, an investment banking firm in New York, since 1987. He does not limit his activities to the financial world, however. Mr. Altman is also active in the New York City community as a member of the Council on Foreign Relations and as Chairman of the Cities in School Program.

Mr. Altman's credentials make him an outstanding candidate for the position of Deputy Secretary of Treasury. His background clearly reveals an individual knowledgeable about the economy and financial markets but still in touch with mainstream America.

Mr. Altman possesses the intelligence and practical experience that he will need to help solve the problems of our economy. Congress will benefit from his leadership, as will the American public.

Mr. Altman is obviously no stranger to the financial industry nor the Treasury Department. I have no doubt that, once confirmed, Mr. Altman will become a valuable asset to both.

Thank you for this opportunity to speak Mr. Chairman.

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#### PREPARED STATEMENT OF SENATOR DAVE DURENBERGER

Thank you Mr. Chairman. Congratulations Mr. Altman on your nomination as Deputy Secretary of the Treasury. Your background and expertise would appear to make you an excellent choice for this important position.

One of my high priorities is deficit reduction. While this issue does not rest solely with Treasury, you will play an important role in the Clinton economic stimulus/deficit reduction debate, and I would like to impress upon you the importance that I place on addressing the deficit crisis, without imposing new tax burdens on Americans.

When the new Administration takes over the direction of our country it will bring with them many new people and many new ideas. Unfortunately, it will also face many old problems. One of the old problems which must be addressed with the utmost immediacy is that of the spiralling national debt. Our country currently faces a staggering debt of \$4.1 trillion. This must be brought under control. The people of Minnesota have long conveyed their outrage to me on this issue, and I share that strong feeling.



Yesterday, Senator Bentsen championed the cause of deficit reduction when he was before this committee as he has throughout his career in the Senate. He advocated a solution based on fiscal restraint coupled with growth in the economy. In order to achieve this goal, we must have a strong commitment to it and a strong commitment to working in a bipartisan fashion to achieve it.

We as a Congress, working together with the new Administration, must be willing to continue to make the tough decisions on spending issues in order to overcome this fiscal tragedy. We can and must address this matter immediately. With your strong financial background, Mr. Altman, I know that you appreciate the problematic fiscal situation in which our country has found itself. I would hope that as you assume your duties as the Deputy Secretary of the Treasury, you will understand the importance of addressing this issue with all urgency.

In order to maintain a strong leadership role in the world economy, the United States needs to foster growth at home. A successful dedication to deficit reduction is critical to these ends.

I look forward to working with you in your new position to facilitate the revitalization of the United States economy, and work through the G-7 to revitalize the economies of our allies.

[Submitted by Senator Moynihan]

The biggest spender of them all.

## REAGAN'S BANKRUPT BUDGET

BY DANIEL PATRICK MOYNIHAN

IN HIS FIRST thousand days in office Ronald Reagan increased the national debt of the United States by half. If he should serve a second term, and the debt continues to mount as currently forecast by the Congressional Budget Office, the Reagan Administration will have nearly tripled the national debt. In eight years, one Republican Administration will have done *twice*, you might say, what it took 192 years and thirty-eight Federalist, Democratic, Whig, and Republican predecessors to do *once*. The numbers are so large they defy any ordinary effort at comprehension (a billion minutes ago St. Peter was fourteen years dead), but for the record they are as follows. On President Reagan's inauguration day, January 20, 1981, the national debt stood at \$940.5 billion. In the next thirty-two months, \$457 billion was added. The projected eight-year growth is \$1.64 trillion, bringing us to a total debt, by 1989, of \$2.58 trillion.

Debt service, which is to say interest on the debt, will rise accordingly. It came to \$75 billion in fiscal year 1980. By the end of this fiscal year, it will be something like \$148.5 billion. And so it might also be said that the Reagan Administration will have doubled the *cost* of the debt in four years.

A law of opposites frequently influences the American Presidency. Once in office, Presidents are seen to do things least expected of them, often things they had explicitly promised not to do. Previous commitments or perceived inclinations act as a kind of insurance that protects against any great loss if a President behaves contrary to expectation. He is given the benefit of the doubt. He can't have wanted to do this or that; he must have *had* to do it. President Eisenhower made peace, President Kennedy went to war; President Nixon went to China.

Something of this indulgence is now being granted President Reagan. Consider the extraordinary deficits, \$200 billion a year, and continuing, in David Stockman's phrase, as far as the eye can see. This accumulation of a serious debt—the kind that leads the International Monetary Fund to take over a third world country's economic affairs (or in older times would lead us to send in the Marines to collect customs duties)—is all happening without any great public protest, or apparent political cost.

Daniel Patrick Moynihan, the senior United States Senator from New York, is a member of the Senate Finance and Budget Committees.

As such, this need be no great cause for concern. If Ronald Reagan is lucky, good for him. There is little enough luck in the business. But, unfortunately, something much larger is at issue. If nothing is done, the debt and the deficit will virtually paralyze American national government for the rest of the decade. The first thing to be done, to use that old Marxist terminology, is to demystify the Reagan deficit.

If I may say so, what I now write, I know. That is not and should not be enough for the reader. I will ask to be judged, then, by whether the proposition to be presented is coherent, and whether any other proposition makes more sense.

The proposition is that the deficits were purposeful, that is to say, the deficits for the President's initial budgets. They were thereafter expected to disappear. That they have not, and will not, is the result of a massive misunderstanding of American government. This is not understood in either party. Democrats feel uneasy with the subject, one on which we have been attacked since the New Deal. Republicans are simply uncomprehending, or, as Senator John Danforth of Missouri said in a speech on the debt ceiling in November (referring to the whole Senate, but permit me an inference), "catatonic."

Start with the campaign. Although we may be forgiven if we remember otherwise, as a candidate, Mr. Reagan did not propose to reduce federal spending. Waste, yes, that would be eliminated, but name a program, at least one of any significance, that was to go. To the contrary, defense spending was to be considerably increased. That was the one program issue of his campaign. It was the peculiar genius of that campaign that it proposed to increase defense expenditures while cutting taxes. This was the Kemp-Roth proposal, based on Arthur Laffer's celebrated curve. As a candidate, Mr. Reagan went so far as to assert that this particular tax cut would actually increase revenues.

What follows is crucial: no one believed this. Obviously a tax can be so high that it discourages the taxed activity and reduces revenue. This is called price elasticity and is a principle that applies to pretty much everything from the price of THE NEW REPUBLIC to the price Justice Holmes said we pay for civilization. But any massive reduction in something as fundamental as the income tax was going to bring about a massive loss of revenue. And this was intended.

There was a hidden agenda. It came out in a television speech sixteen days after President Reagan's inauguration, when he stated, "There were always those who told us that taxes couldn't be cut until spending was reduced. Well, you know we can lecture our children about extravagance until we run out of voice and breath. Or we can cut their extravagance by simply reducing their allowance." The President genuinely wanted to reduce the size of the federal government. He genuinely thought it was riddled with "waste, fraud, and abuse," with things that needn't or shouldn't be done. He was astute enough to know there are constituencies for such activities, and he thought it pointless to try to argue them out of existence one by one. He would instead create a fiscal crisis in which, willy-nilly, they would be driven out of existence.

**I**F HIS understanding of the government had been right, his strategy for reducing its size would have been sound. But his understanding was desperately flawed. There is waste in the federal budget, but it is of the kind generic to all the long-established enterprises. Thus we have an Army, a Navy, and an Air Force. They compete, they overlap, they duplicate. Well, yes. But they also fight, in no small measure because these uniforms mean something to those men and women, and have, in the case of the Army and Navy (and of course the Marine Corps, which is part of the Navy) for more than two centuries. A management consultant might merge them. I sure as hell wouldn't, except perhaps way at the top. For the rest, well, there is the F.B.I. at \$1 billion; the Coast Guard (equally long established) at \$2.5 billion, and so on. Welfare? In the sense of welfare mothers? The Aid to Families with Dependent Children program comes in at about 1 percent of the whole budget. (*The Washington Post* has half-seriously proposed that it be abolished altogether so that people will stop talking about it.) There are areas in the budget where expenditure is indeed growing at enormous rates, principally that of medical care. But for the most part, and especially in the case of medical care, expenditure is growing at similar rates in both the private and public sectors. Large social forces are at work, not simply a peculiarly pathological tendency of government.

A notable area of miscalculation, or rather misinformation, among the Reaganites was that of foreign affairs. President Reagan has acted much as his predecessors have done in foreign affairs, and for the elemental reason that he is faced with much the same situations. Invariably, this has meant spending money. This fall the President had to plead with Congress to increase appropriations for the International Monetary Fund, something he cannot have expected ever to be doing, but there you are. As I write, the Kissinger Commission on Central America is no doubt drawing up a massive "Marshall Plan" for the area. Is there any doubt that in the next session the President will be pleading with Congress to increase this particular form of foreign aid? (Just as, had his supporters in the Senate been successful in blocking the Panama Canal treaties in the Carter years, he would be pleading

today with the Senate to consent to their ratification.)

President Reagan's tax cut—the largest tax reduction in history—became law in August 1981. Critics, if they are members of Congress, typically must begin by explaining why they voted for the tax cut. I am one. (There were only eleven Senators who voted no.) I have an explanation, but no excuse.

After years of intense inflation and the accompanying "bracket creep" in the income tax, we did need to reduce personal tax rates. A year earlier, the Senate Finance Committee, controlled by the Democratic majority, had reported out just such a bill, but Mr. Carter's White House would not hear of it. This helped lose the Senate for the Democrats, but the lesson was not lost.

The great recession of 1981-82 made it painfully clear that the tax cut was too small for the first year, when a neo-Keynesian stimulus was in order. At the time, however, a bidding war broke out in the House, sending the parties into senseless competition to offer loopholes to special interests. The result was a tax cut much too large for the later years. Thus the \$200 billion annual deficit. Again, no excuses from this quarter, but in the Democratic response to the President's televised speech of July 27, 1981, I did say, "In the last few days something like an auction of the Treasury has been going on . . . what this is doing is taking a tax cut we could afford and transforming it into a great barbecue that we can't afford. I would say to the President that some victories come too dear."

**E**NTER THE Federal Reserve Board which looked at the huge tax cuts in the midst of high inflation and decided to create an economic downturn. Of all the structural anomalies of American government, the arrangements for setting macroeconomic policy are the most perverse. Although fiscal policy (the amounts of money the government spends, receives, and borrows) is made through a painfully elaborate public process by an elected President and an elected Congress, monetary policy (the total amount of money in the economy and the cost of borrowing it) is made in secret by appointed officials. The Reserve Board tightened the growth of the money supply so strenuously that it actually declined in the third quarter of 1981. Real interest rates reached the highest levels in our nation's history, and the economy fell off the cliff. At the end of September 1981, the steel industry was operating at 74.5 percent of capacity; by the end of 1982, it was operating at 29.8 percent of capacity.

To be sure, the Fed does not control the precise money supply and cannot precisely determine interest rates. But it can set the direction and range for both, and this it did. Anyone who tried to dissent was soundly rapped. Its two dozen or so central bankers decided to bust the economy, and bust it they did. In a White House appearance in October 1982, Nobel Economist George Stigler used the term "depression" to describe the economy.

There is a tendency for any government to live beyond its income. The Reagan Administration transformed this temptation from a vice into an opportunity. Put plainly,

under Ronald Reagan, big government became a bargain. For seventy-five cents worth of taxes, you got one dollar's worth of return. Washington came to resemble a giant discount house. If no tax would balance the budget, and no outlay would make it any worse, why try?

A boom psychology moved through government. Defense came first, from space wars to battleships—the latest defense appropriation reactivates the World War II vintage *U.S.S. Missouri*. Hog wild is the only way to describe the farm program. Jimmy Carter left behind a \$4 billion enterprise, somewhat overpriced at that and the object of incessant right-wing criticism. Whereupon the fundamentalists and their political brethren took over. Within thirty-six months they increased the annual cost of the farm program more than fourfold. Their most recent enthusiasm, signed into law by President Reagan, is a program paying dairy farmers not to milk their cows.

**W**HAT IS to be done? The economy is at stake. The country can bankrupt itself. According to the latest budget projections, prepared by the Congressional Budget Office under the impeccably conservative new director, Rudolph G. Penner (formerly of the American Enterprise Institute), the deficit for the six years 1984 to 1989 will come to approximately \$1,339,000,000,000. In order to support and service this debt, the government will have to absorb more and more of the capital that is coming available in the nation's credit markets. Direct federal borrowing for the deficit and federally guaranteed loans absorbed 62 percent of all credit raised on the nation's financial markets this year, compared to an average absorption rate of 8.3 percent in the 1960s and 15.3 percent in the 1970s. This "crowding out" was not much felt, because few others were borrowing to invest. But when the day comes that business, consumers, and government all compete for the same funds, interest rates will go up, with predictable consequences.

Under these circumstances, the only thing a Republican Administration and a Republican Senate will be able to consider doing will be to revert to their original agenda: use the budget deficit to force massive reductions in social programs. This time they will be able to cite not mere illusions but necessity. Even if interest on the debt climbs to \$200 billion a year, as now seems likely, presumably there will still be an Army, an F.B.I., and some kind of customs service and border control. What then will be left to cut?

Entitlements, or more precisely, Social Security.

The word is already the rage. There is scarcely a Republican member of the Senate who does not know that entitlements must be cut, and cut deeply. Many Democrats agree; almost none dissent. Remember, at least twenty Senators are millionaires, living at considerable social distance from those who would be most affected. It will be much the same in the House. The budget deficit in the year ahead will threaten any sustained recovery. The members of the House, as a rule, are

not millionaires, but they know their street corners. The street corners will say, "Cut. Something must be done."

Cut back Social Security in desperation, and you abandon a solemn promise of the Democratic Party and of American society. This promise, once broken, will fracture a little bit of society. (Moreover, cutting Social Security will not improve the deficit problem. As Martin Feldstein, chairman of the Council of Economic Advisers, has noted, Social Security is funded by separate payroll taxes and contributes not a cent to the deficit.)

There is an alternative. There is the possibility of a historic compromise that can bring the now dominant branch of the Republican Party to grips with reality, while shaking the now dominant branch of the Democratic Party from its illusion that no one will listen to Republicans for very long. Such a compromise cannot await a change in the political culture. It must be negotiated. We need a structure, a forum in which negotiations can take place. A Presidential commission might be such a structure.

The National Commission on Social Security Reform—on which I serve—would provide a model. It was established by President Reagan in December 1981, after Congress rejected his original plan to sharply reduce Social Security benefits. One point in particular is crucial. Alan Greenspan, who chaired the commission, adopted a simple rule: each member was entitled to his own opinion but not his own facts. Within a year Mr. Greenspan had established the facts, which showed that the problem was neither trivial nor hopeless. The commission as such could reach no agreement. But with the facts established, we put together a bipartisan legislative package last January in exactly twelve days.

**T**HE BUDGET CRISIS presents a harder problem, but it can be approached in the same way. Martin Feldstein made a good beginning in a speech to the Southern Economic Association on November 21. He agreed with the Congressional Budget Office that by 1988 the deficit will absorb 5.1 percent of the nation's G.N.P. Of this, Feldstein noted, 2.4 percent will come from increased defense spending, 1.7 percent from the tax cut, and the remaining 1 percent from higher interest payments. The facts about the structural deficit flow readily from such quantification.

The members of the budget commission—representatives from the Administration, Congress, the Federal Reserve, and the Congressional Budget Office—would determine the actual effects of deficits on employment, real interest rates, capital formation, investment, and the prospects for vigorous economic growth. Then they would propose the steps to reduce the deficit, making certain that the burden of these reductions did not fall disproportionately on any economic or social group. Delaying tax indexing, reforming corporate tax law deductions and credits, cutting defense spending, and reducing farm price supports, among other proposals, would have to be considered. Medicare, secure in the short term, will be in deep trouble before the end of this decade. The deficit commis-



sion must face up to this problem. Democrats should agree to do so in return for assurances that the Social Security agreement will be respected and that the Social Security trust fund will not be raided (the plain purpose of those who say entitlements are the problem).

Moreover, a solution to the deficit crisis will require more than adjustments in spending and taxation. It will demand change in the way we make fiscal and monetary policy and the way those policies are coordinated. Monetary policy and the operations of the Federal Reserve must

be an integral part of any fiscal resolution. Nothing can be achieved without a joint monetary-fiscal effort to promote an expanding economy and an approach to full employment—a one percentage point drop in unemployment alone reduces the budget deficit by \$30 billion.

But let's stop here. I have my own thoughts. The reader will have his or hers. On the final day of the last session of Congress, I introduced legislation to establish the National Commission on Deficit Reduction. Now, can we get the President to join?

[Submitted by Senator Riegle]



PRESS PHOTO/NOEL WEBLEY

Taking it a day at a time: Victoria Kelly of Stanton with children Felisha, left, Brittany and Steven.

## HARD TIMES

Growing poverty is especially grim in rural Michigan

By Ted Roelofs  
The Grand Rapids Press

11-23-92 A-1

Amid the scattered mobile homes, farms and struggling small towns of Montcalm County, no one needs reminding that economic hard times are a fact of life.

Victoria Kelly, a 29-year-old single mother of four stuck at the gritty margins of poverty, sometimes wonders how she'll get through tomorrow. She tries not to imagine what it will bring her children.

"I don't want to think about that," Kelly says. "The way the economy is going it's not going to be good."

At the moment, Kelly is a temporary guest with a friend in a cramped trailer in Stanton while she tries to secure a place of her own.

She lives on \$360 a month in welfare payments and the \$3.85 an hour she earns as waitress and cook in a nearby tavern. She can't afford a car. Plans to finish high school and someday enter college remain a distant dream.

A new survey of poverty in Michigan says that Kelly and her children are a growing part of the social landscape, especially in the rural counties of northern and western Michigan.

According to a survey by Kids Count in Michigan, a child's welfare advocacy group, nearly 19 percent of the children in Montcalm County live in poverty, a 37 percent rise over 1980. Dramatic increases were recorded in other area rural counties as well, including Newaygo County, where 21 percent live in poverty, a 24 percent rise, and Ionia County, with 14 percent in poverty, a 43 percent increase over 1980.

Calvin College sociology professor Henry Holstege

warns that the consequences of this trend could be grim.

"If you extrapolate this out over a decade or two, it gets to be a scary scenario. At the top you have people who are highly educated and who do very well and at the bottom you have unskilled people struggling to survive.

"No society can tolerate that for long. What happened in L.A. is an illustration of that," Holstege said.

At the root of this trend, some officials believe, is the apparent downward shift in the American economy, as good-paying industrial jobs are lost and replaced by marginal service sector employment. Work that paid \$10 an hour is suddenly gone. In its place are jobs that pay \$4 or \$5 an hour.

The story is much the same in Montcalm County, a sparsely settled region of 53,000 people that is dotted with woods and little lakes that has long depended on manufacturing for much of its economic base.

But in the past decade, area employers like White Consolidated Industries and Hitachi Magnetics in Edmore have cut back their work force, wiping out hundreds of jobs in the process. Facing financial difficulties, White Consolidated shut down its plant in Belding in 1988, terminating 500 jobs. It also eliminated hundreds of jobs from its Greenville plant. In 1987, Ore-Ida Foods closed down its plant in Greenville, costing another 530 jobs.

Residents haven't found much to take up the slack. Gas station, convenience store and waitress work doesn't go very far when there's a family to support.

see POVERTY: A4

# POVERTY

CONTINUED FROM A1

Louise Mills, administrative assistant at the Montcalm County Department of Social Services, has seen close up the effect of all these shutdowns.

"We've lost a good share of our major industrial base. That's one of the big things to affect us.

"It just means more people looking for the jobs that aren't — and more people having to settle for the minimum-wage jobs that cannot support a family," Mills says.

Coupled with the declining economy, a high divorce rate only adds to the likelihood that families will find themselves plunged into poverty, experts say. And the children of such families are more likely themselves to repeat the cycle of poverty, Calvin's Holstege indicates.

"You have to have remarkably strong moral characteristics to overcome all of that," Holstege says.

In the seven years since she was divorced, it's often seemed hard for Victoria Kelly just to stay afloat, let alone rise above her circumstances. She's moved more times than she cares to remember, most recently living in Lansing and Ovid, a small community west of Owosso.

She moved back to Stanton about 10 days ago, when a job prospect in Ovid didn't materialize. Kelly had planned to enter business with a friend who was starting a cleaning service there, but says she wasn't paid for her work.

For the most part, Kelly has relied on Aid to Dependent Children since her divorce while working periodically as a cook, waitress or gas station attendant. The most she has earned is \$4.15 an hour in a Subway store in Lansing.

"It's been one thing after another, and next thing you know it all crashes down," Kelly says. "It's been extremely difficult on all of us."

Three of her four children live with her: Steven, 11, Felisha, 5, and Brittany, 2. Her other child lives with her former husband.

She hopes next month to move into her own trailer, where she plans to maintain a more stable life.

"I'm not leaving Stanton again," she says. "I'm staying put."

Kelly figures education is the best hope for her children to escape the life she's had to face.

"I consider them fabulous kids," she says, as her daughter, Felisha, hovers around, showing off a drawing she just finished. "They are great students. I hope they can get a good education so they can go to college."

Though perhaps less common, there are similar stories of hardship among two-parent families caught in the declining economic cycle of rural Michigan.

In Greenville, 31-year-old Ann

Hodges and her two children were forced to live apart from her husband, Lonie, when they were evicted from their last place because they couldn't make the payments. Hodges and her daughter, Misty, 7, and Bobby Joe, 6 months, went with her to live temporarily in her parents' apartment. Her husband is living with a friend because there isn't enough room in the apartment.

"It hasn't been easy for us. It's hard to find work, and it's hard to find a place to live because they want so much for rent and everything," says Hodges.

Lonie, she explains, was laid off his job from White Consolidated. In the meantime, she was cut off from her ADC payments because he had found work. Now's she waiting to get back on ADC.

"It's been staying here and staying there so we have a place to keep (the children) so we're not sleeping in the car. Usually I've had a permanent place to stay," Hodges says.

In the meantime, her husband continues to look for work — even though it's unlikely he'll find anything to match his job at White Consolidated.

"He's not worried about the pay. He just wants a job and that's it," Hodges says.

In neighboring Newaygo County, DSS Director Jim McCormick suspects the poverty rate is climbing for another reason. Needy families are fleeing urban counties like Kent and Muskegon, he says, both to escape the dangers of inner city crime and to find the cheaper housing many rural counties offer.

"We are seeing some migration out of the urban areas," McCormick says. "In October, we had 38 public assistance transfers from Kent County alone, 15 from Muskegon."

And with the spread of rural poverty, it's not hard to find the effect on children.

According to McCormick, a recent survey of White Cloud Public Schools found one child in two was considered "at risk," because of poverty or other factors.

Last year, McCormick adds, the Newaygo Public Schools added a breakfast program "because so many kids were coming to school hungry."

McCormick believes the numbers do not portend well for Michigan. When ranked on the basis of factors such as children in poverty, infant mortality, teen-age violent death and percent graduated from high school, the state ranks 37th, McCormick says.

"I think we've lost ground," he says.

If the numbers are right, the state may reap a generation of trouble.

"Kids up here are isolated and get less exposure to middle class values. This puts them kind of behind the eight-ball. It lowers their expectations of themselves."

"The biggest problem we see with adults is self-esteem."

WV BCT 11-2-91 FESYDC C.A.

# 500 needy infants, children may go without winter coats

By Edna Younkman  
TIMES WRITER

More than 500 needy infants and children in Bay County may go without winter coats this year because of a drastic drop in donations to coat collection programs.

Marge Maciejewski, chairperson for Coats For Kids and For Kids, said there has been a decrease this year both in requests for coats and donations.

Donations, however, have dropped faster than requests. The programs already this

County children each year. The programs accept used coats used coats in good condition or financial donations to purchase coats, usually at a discount from local retailers.

This is the first year we've

See FOLK6, 6A



## Folks can still donate coats

### From 1A

come up against not having enough coats," Maciejewski said. "I don't want to make those calls to families to tell them that we don't have enough coats or that they will have to wait longer. It's cold right now."

She said coat requests, including about 50 on Thursday, continue to come pouring in.

"Parents are coming in and often the little children they bring with them have no coats now. A little baby was brought in with nothing at all and it was bitterly cold outside. The parents put the coat on the baby right there.

"These people honestly don't have these things. We also have migrant families who stayed and they aren't prepared for winter," she said.

The families have no other way to obtain warm winter wear, she added.

The biggest need is for coats for infants through size 10 for both boys and girls, she said. Mittens, caps, scarves and boots also are needed.

Drop boxes are located at Hampton Towne Centre, Bay City Mall, Sav Mor, Wal-Mart, Pinny Food Center in Pinconning and Created for Caring, the coordinating agency for both programs in Bay County.

Coats and accessories also may be dropped off at Kim's Quality Dry Cleaners, 803 N. Euclid Ave., which donates dry-cleaning ser-

vices to the programs, or Fresh 'N' Clean, 606 Third St., which donates laundering services.

Coats For Kids is sponsored by WNEM-TV and WIOG-FM. Caring For Kids is a program of WJRT-TV and WKQZ-FM. ▼

Bay County Emergency Services collects the donated items from the drop boxes and transports them to the cleaners and from the cleaners to Hampton Towne Centre, where they are distributed to families.

Coats for Kids got a boost Thursday when residents attending a benefit performance of the Central High and Handy Intermediate choirs donated 70 coats and \$350 to the drive.

"Rather than charging admission to the choirs' performance, they decided to ask for donations and give any donations to charity," said Linda Schmidt, a secretary at Central High School.

Schmidt said folks still can donate coats at Central's main office, 1624 Columbus Ave.

Any National Honor Society student attending Central also will accept coats for donation.

Financial donations may be sent to either Coats for Kids or Caring for Kids in care of the sponsoring stations or Created for Caring, 400 N. Madison Ave., Bay City 48708.

Both programs end Nov. 20, but Created for Caring will continue to accept coats and donations after that date in an attempt to fill all requests.





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